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WHOLESALE FOOD MARKET FACILITIES

• Types of Ownership and Methods of Financing

MARKETING
RESEARCH
REPORT NO. 160

UNITED STATES DEPARTMENT OF AGRICULTURE
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MARKETING RESEARCH DIVISION

PREFACE

The authors express appreciation to the many individuals and agencies who assisted in making this study. A number of officials of various State departments of agriculture and wholesale food markets were extremely helpful in making suggestions and providing material describing actual operation and financing of various produce markets.

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SUMMARY

Farm and food products move through various kinds of facilities on their way from producer to consumer. One kind of facility through which these products move is the wholesale food market. As a large number of persons and firms operate in a wholesale food market, such markets present challenging and complex problems with respect to types of ownership and methods of financing.

Wholesale food markets usually consist of stores for handling various kinds of food products, stalls in which farmers may display their produce, restaurants, offices, and other facilities for individual businesses. In addition, these markets have certain facilities for common use, such as railroad tracks, streets, and parking areas. Although large firms occupying entire buildings can own and operate their buildings, facilities for other operators must be provided by group ownership and financing.

To get unified action by all types of dealers and develop a financial plan that will produce the funds needed for construction, groups sponsoring new markets must recognize several factors: Generally, tenants of the facility must be given a voice in its management; this is imperative if they supply part of the funds for its construction. The organization must have sufficient legal status and adequate equity money to interest lending agencies in providing the rest of the funds needed. Ordinarily, satisfactory leases with responsible tenants are necessary. Wholesale food markets have been built by private corporations, public benefit corporations, governmental agencies, and cooperative associations. Although the problems of financing vary by type of ownership, kind and size of market, and location, the underlying principles of financing are similar for all types of ownership.

The first essential in financing a market center in which many firms will operate is to have a responsible organization to take the initiative in developing the plan of operation, signing up the tenants, dealing with financial institutions, and otherwise promoting the project. Next, it is necessary to decide how much equity capital is needed and where it is to come from. With private corporations the owners usually must purchase sufficient stock to raise the required equity capital. With public agencies, the government agency sponsoring the project commonly provides the equity capital, unless the obligations are backed by the taxing power of the government agency involved. As a rule, the larger the percentage of funds supplied as equity capital, the easier it is to borrow the remainder and the more favorable the terms.

If a sound market plan is developed, it is usually possible to borrow from 60 to 70 percent of the funds required on long-term bonds, which may be sold to investment institutions, foundations, public agencies, or the general public. Such loans are usually backed by a first mortgage on the facilities and sometimes are supported by the revenue to be derived from rentals on the facilities, secured by leases from responsible firms. Repayment is made by amortization over a period of years or by amortization of the major portion of the loan over a period with the remainder due in a lump sum on the last day of the amortization period. In the latter case, refinancing of the final obligation is usually contemplated, and the amount to be refinanced may be roughly equal to the value of the land occupied by the facility.

If the amount that can be raised by sale of stock plus the amount that can be raised by sale of first mortgage bonds does not provide the total funds needed, the remainder may be obtained in several ways. Such funds may be raised by selling preferred stock, issuing debentures, second mortgage financing, obtaining land by long-term lease or on second mortgage,

and giving short-term notes. Usually, construction loans from commercial banks provide the funds needed during the construction period.

After the group sponsoring a market facility has been organized, a site selected, and decisions made regarding facilities needed, method of financing, and total funds required, the organization should determine the annual income needed for debt service, reserves, taxes, and operation expenses. Then it should decide what rentals will be required to produce this income. Armed with this information, the organization can enter into agreements with firms that want to operate in the facilities and with contractors, lending institutions, and others.

This report discusses in some detail the merits of different types of ownership, sources of loan capital, ways of selling securities, governmental regulations to be complied with, and methods of financing used by a number of food markets. This general information should aid interested people in any locality in developing a financial plan to fit their situation.

WHOLESALE FOOD MARKET FACILITIES--TYPES OF OWNERSHIP AND METHODS OF FINANCING

By Harry G. Clowes, agricultural economist, William H. Elliott, head, Handling and Facilities Research Section, and William C. Crow, chief, Transportation and Facilities Branch, Marketing Research Division

BACKGROUND OF THE STUDY

Enroute from the grower to the housewife, food moves through a number of marketing facilities, some of which may be old, outmoded, and inefficient (fig. 1). The defects of the facilities through which the food is handled usually result, of course, in increased handling costs and greater spoilage and waste. These marketing costs are reflected in the prices paid by the consumers and the returns received by the growers.

Improvement of wholesale food market facilities presents many problems to State or local groups sponsoring improvements with respect to selecting the proper type of ownership and in developing an adequate method of financing. Regardless of how perfectly a wholesale food market may have been designed or how complete and accessible it may be, its success will depend to a large extent on the type of ownership and the consequent character of its management and operation. To operate for the benefit of all potential users, the owners must open the facility to all groups of market patrons and plan individual structures so that each group can handle the various food items at the lowest possible cost.

In many localities where improved market facilities are needed urgently, neither public nor private funds have been available to make these improvements. In some cases, this lack of capital funds can be attributed to the divergency of interests on the part of farmers, truckers, wholesalers, and others who use or operate on a market facility and to their inability to work together to form an organization in which the interests of each group would be safeguarded. As a rule, when farmers have banded together to accomplish certain objectives, they have thought in terms of an organization whose membership would be limited to their own numbers. Much the same situation has applied to wholesalers and to truckers. Neither of these groups appears to be very well aware of the existence and possibilities of organizations in which each can have a voice and through which they can work to accomplish common objectives. One of the purposes of this report is to discuss such organizations.

The reluctance of both public and private agencies to make funds available for constructing improved market facilities results not only from the inability of divergent groups of market users to associate themselves in a market organization, but often can be

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Figure 1.--Dock Street Wholesale Fruit and Vegetable Market area, Philadelphia, Pa., showing crowded and inadequate facilities in old, multistoried buildings, and crowded street traffic.

traced to (1) the failure of individuals comprising these groups to invest their own funds in the amounts needed to provide a margin of safety for investors, (2) a lack of historic data covering revenue potentialities of new facilities, and (3) faulty statutes authorizing the organization of private or public market organizations.

Many questions are raised each year as to the most desirable type of ownership for a new wholesale food market facility in a specific locality and the methods for financing land acquisition, construction, and other costs. This report attempts to answer these questions by setting forth the principles involved.

In subsequent sections the principles of desirable ownership of wholesale produce markets are enumerated and four major types of ownership are appraised in the light of these principles. The possible methods or avenues open to different sponsoring groups for financing construction and other costs are discussed. Suggestions are made as to which elements of cost should be financed by the market owners and which by the occupants of the facilities. Information also is included on the types of investors who may be interested in making funds available for such an enterprise and the types of financial instruments that may be used to

obtain the necessary finances. Some of the Federal Government regulations affecting the issuance of these financial instruments are discussed. Finally, selected examples are given of how funds for land acquisition and construction have been raised.

Standard published material has been drawn on in presenting various methods of financing and in describing various financial instruments. Also, information obtained on selected wholesale food markets has been used in these discussions.

It should be emphasized that the criteria presented in this report do not apply to all types of wholesale markets. Notable exceptions are livestock auction markets and tobacco markets (warehouses), which, to a great extent, have been financed and operated by individuals or private firms.

For the purpose of this study, a wholesale food market includes those facilities used for the wholesaling of food and food products and products associated or allied with them. Such a market may also include facilities used for auxiliary services, as a garage, service station, branch bank, restaurant, or public scales.

It is assumed that wholesale food market sponsors will refer the many details of organization, construction, and financing to competent lawyers, engineers, architects, and other professional people, and request their advice and assistance. Obviously, this report cannot presume to answer all questions that may be raised or to provide the legal assistance that may be needed. Also, it is assumed that these sponsors will probe more deeply the application of the suggestions included so that costly blunders will be prevented.

It is strongly suggested that the market sponsors discuss the details of organization, promotion, construction, and financing with State marketing officials and with officials of other wholesale food market organizations who have gained recent experience in improving market facilities. The experience of these marketing officials has proved invaluable to a number of new market organizations in finding solutions to problems which have been encountered.

CRITERIA OF DESIRABLE OWNERSHIP

Many groups and interests are concerned with the type of ownership and method of operating wholesale food market facilities. From the standpoint of efficient distribution, wholesalers, growers, transportation companies, retailers, consumers, and sellers in distant locations, all have a stake in the type of ownership selected by food market sponsors. Cities, counties, and other public agencies also have an interest in these markets. Their interests usually center around tax revenues, planning needed streets and highways, zoning, enforcement of health and sanitary regulations, the enactment of ordinances governing the handling of food products and the general welfare of their people. Also, cities are interested in the increase of the volume of business transacted within their boundaries. Investors obviously have a direct interest in the success of market ventures. Whether public or private funds are used, they have the right to expect these wholesale food markets to be constructed and operated in such a manner that their investments will be properly protected, and that reasonable returns will accrue.

However, none of these groups, except certain investors, should be interested in seeing a wholesale food market facility operate primarily for profit. In fact, those groups which will rent the facilities are all interested first in maximizing the returns from their own respective enterprises rather than profits from the market. If rental charges are too high, all types of market lessees are penalized and their total business returns may be reduced accordingly.

Results of studies of various factors affecting the ownership and operation of wholesale food market facilities suggest that the most desirable type of ownership is one that can and will--

1. Operate the market facility on a nonprofit basis.

2. Give all major groups who use or operate on the market or are directly interested in it, a voice in its management.

3. Have sufficient legal stature or authority, prestige, and actual or prospective collateral to obtain adequate funds to acquire land and construct the proper types and amounts of facilities needed.

4. Provide a method whereby lessees occupying facilities during the period when the original investment is being amortized can recoup some of the high rentals paid during the amortization period, after the facility is paid for and the need for high rentals reduced.

5. Operate a complete food market so that no legitimate food business will be squeezed out or discouraged from locating in it.

6. Discourage discrimination against sales of food items because of origin, method of transportation, or types of buyers and sellers.

7. Protect the public interest by (a) discouraging duplication of market facilities and (b) maintaining proper health and sanitary standards, traffic controls, etc., by establishing proper market rules and regulations.

Although these criteria impinge on management policies, this report does not attempt to evaluate the efficiency of management. Good management is possible with the least desirable type of ownership. Conversely, the most desirable type of ownership does not in itself insure against poor management. Nor do these principles attempt any exploration of the criteria or standards covering facility layout, design, arrangement, organization, economic need, and location which would be applicable to markets regardless of type of ownership.

Operating a Facility on a Nonprofit Basis

New wholesale food market facilities are constructed primarily to make it possible to distribute food at the lowest possible operating cost. Properly designed facilities should eliminate some of the handling operations that are necessary in many of the older markets and permit the adoption and efficient use of better methods. If rental and other charges for new market facilities are set at relatively high levels to show large profits to the

market owners, potential lessees may find their savings in handling and other operational costs more than offset by increased rental costs. Under these circumstances, most dealers would remain in the old facilities.

The operation of a market facility on a nonprofit basis does not mean that the lessees should be subsidized. Nor does it mean that investors, whether stockholders or investment houses, should make funds available on an interest-free basis. Regardless of whether a market facility is publicly or privately owned, the tenants should expect to pay rentals or fees which will raise sufficient revenue to: (1) Amortize the investment in facilities; (2) pay interest on the investment in land; (3) pay market operating expenses; and (4) establish adequate reserves.

No large gains to the owners of the facility merely as a payment for ownership should be permitted. This does not mean, however, that any individual tenant or dealer should be expected to operate his business on a nonprofit basis.

Providing All Groups Using the Market a Voice in Its Management

The organization of the governing board and the composition of its membership are of prime importance as this will be a policy-making body responsible for the overall operation of the market. In general, a small board has been found to work with greater efficiency than a large one. However, size should not be so restricted that any important market group is not represented. Usually, a board made up of not less than 5 nor more than 9 members is considered a representative and manageable group. However, in some cases a smaller board will be adequate.

In all instances the governing boards of wholesale food markets should provide for representation from (1) the producers who bring or send farm or food products to the market for sale, (2) the buyers who depend on the market for supplies, and (3) the dealers who operate on the market. Frequently, it is desirable to provide for a member who will represent consumer interests.

When the market is financed in whole or in part by public funds, a representative of the public agency should be on the board. Moreover, representation from a public agency usually is desirable on the governing board of a privately owned market. The terms of office of the members of the board should be *staggered* so that a completely new board of directors will not be elected at any one time. Each member of the board of directors should be given an equal vote on issues presented for consideration.

Authority to Raise Funds

Funds for market improvements may be obtained by private and public investment, appropriation of public funds, loans, gifts, or donations. To borrow adequate funds at costs in line with those paid on securities issued by comparable types of businesses, sponsors of a new market facility must be in a position to offer specific collateral in the form of mortgages on land or buildings and show that the anticipated market revenue will be sufficient to repay the loan.

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Investment houses and other bond buyers usually will not make loans or purchase securities, offered for market improvement purposes, for 100 percent of the estimated cost of land and facilities. Most investors will insist on market sponsors providing an equity of 15 to 35 percent of the total market cost, and many require more. On most of the new markets financed in part by the sale of securities, the higher the equity, the lower the interest rates paid.

In a number of instances market sponsors have had ample authority to raise funds for construction of a new market facility, but have not been able to do so because there were few buyers for their bond or stock offers. Usually the lack of buyers could be attributed to the fact that the sponsors were attempting to borrow too large a percentage of the funds needed.

In several cases in which attempts have been made to raise funds, the preparation of the prospectus has left much to be desired from the viewpoint of presenting concrete, factual information on proposed site, construction plans, and sources of revenue for amortizing loans and meeting operating expenses. (See the chapter *Examples of How Funds Have Been Raised*--page 60.)

Protecting the Interests of Original Lessees

The original lessees, who occupy new facilities during the period when building and land costs are being amortized, usually pay higher rentals and fees than lessees who occupy the same facilities after these costs have been paid. The interests of the original lessees should be protected, and they should have an opportunity to recoup part of the higher rentals.

This equity is an important consideration in wholesale market ownership and organization and should be carefully considered before organization plans are completed. Provisions have been made in the bylaws of the organizations owning several recently constructed wholesale food markets to have the original lessees sign a long-term lease, which they may sell at a stipulated time either to the market organization or to a new approved lessee as they may choose. In other instances, arrangements have been made for all tenants to buy a predetermined amount of market stock, and after the costs of the facilities have been amortized, each stockholder will be issued additional shares of stock without additional cost. These additional shares of stock provide the original lessee with a greater equity in the market organization and make it possible for him to recoup a portion of his rental payments, if he chooses to sell this stock.

Although satisfactory solutions to this problem have been developed by private owners, these equity provisions are more difficult to handle when public funds, which must be amortized, are used for market improvements. The problem stems, of course, from restrictions on the conveyance to individuals of an equity in public property.

Encouraging the Establishment of Complete Markets

In most cities, the wholesale handling and distribution of food items ordinarily is conducted at more than one location. In some cities these facilities are widely scattered throughout the metropolitan area. Split or decentralized markets may make buying and selling

more difficult and costly to retailers and other buyers. The buyers must visit widely scattered wholesale outlets to obtain their supplies, as few wholesalers carry a complete line of food and related items. Also, split markets may be expensive to wholesalers, because food receipts arriving in the city at one point frequently are divided and trucked to widely scattered locations. Split markets make it difficult to provide market patrons with accurate information on supplies and prices, which is essential to efficient trading in perishable food products. Split markets tend to discourage buyers, but a one-stop, complete market facility tends to attract them because of reduced costs and more convenience.

The trend toward complete one-stop wholesale food centers handling all kinds of foods should be encouraged. Such a market should provide facilities of the type and size that will meet present needs of all groups of wholesale food handlers who will operate in it and space for future expansion. In a complete wholesale food distribution center, facilities are needed for handling all types of food items, including fruits and vegetables, dairy products, poultry and eggs, meats, dry groceries, fish, and frozen foods. Space is needed for allied industries also, as other food businesses undoubtedly will want to locate within such a district. These may include food processing plants, public refrigerated warehouses, chainstore grocery warehouses, meatpacker-branch houses, and new produce dealers.

Privately financed markets usually encounter difficulties in providing space for possible future needs and in working toward complete food centers; investors are not inclined to make funds available for the acquisition of land which has no immediate possibilities for bringing in revenue. Moreover, many wholesalers feel that, by providing only for the immediate needs of the original occupants of the facility, their competitive positions in the trade will be strengthened. This practice should be discouraged and arrangements made to secure additional land for expansion purposes.

Discouraging Discriminatory Practices

In some instances, where private corporations have financed, built, and managed wholesale food markets, restrictions have been placed on the sale of products received or delivered by a specific type of transportation. Also, in several State and municipally owned markets, sales have been restricted to locally grown food items, or to those offered for sale by the local growers. These restrictions not only penalize those groups who are excluded, but the market itself usually suffers in the long run. Those who are excluded suffer because they usually are forced to use outmoded, inefficient handling and sales facilities, or to move their products to markets with less restrictive regulations. The market suffers because the total tonnage handled on it is reduced. Consumers usually are penalized because of higher prices.

It is obvious that the most desirable type of market ownership is one that will protect the interest of all persons and groups who wish to do an ethical business on the facilities, regardless of the type of transportation used, the origin of the shipment, or who the buyers and sellers are.

Protecting the Public Interest

Because established wholesale produce markets tend to acquire a monopoly on location for this business and for other reasons, the public has an interest in the organization and construction of new or improved market facilities. Duplication or overbuilding of facilities may result in inefficient handling and an increase in marketing costs, with consequent higher prices to consumers and lower returns to farmers. The public has an interest in the health and sanitary standards maintained on a market because of the consequent wholesomeness of the food being sold. It has an interest in traffic loads in the vicinity of markets because public funds must be used to provide access streets and highways and public employees must be used to direct and police this traffic. A desirable type of market organization is one in which the public is represented on the governing board to advise in the matters directly related to the public interest.

TYPES OF OWNERSHIP

Few factors in developing a market facility are more important than its financing and ownership. On the type of ownership depends not only the amount of risk to be underwritten by persons or officials sponsoring the program, but the success in borrowing funds for construction and the control of the facility.

Although many important types of business ownership are used in the United States, not all of these are suitable for wholesale food markets. In a study made in 1947, it was found that the owners and operators of wholesale food markets, both in cities and at shipping points, were of four principal types: (1) Private corporations; (2) public benefit corporations, which are sometimes referred to as market authorities; (3) States and municipalities (direct public ownership); and (4) farmers' cooperatives (47). 1/ These types, with some of the variations found in different States and localities, provide the basis for the discussion which immediately follows.

The Corporate Form of Organization

The corporate form of organization has been used widely as a medium for market improvements. A number of city wholesale markets and shipping point markets are owned by either private or public corporations. In addition, farmers' cooperatives, which usually operate under modified corporate forms of organization provided for by State laws, own and operate a number of wholesale markets, particularly at concentration or shipping points. This chapter presents a description of major corporate characteristics and appraises this type of market ownership.

A corporation, according to the definition given by Chief Justice John Marshall in the famous Dartmouth College Case of 1819, *is an artificial being, invisible, intangible, and existing only in the contemplation of the law.* 2/ It operates under a charter, statute, or

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1/ Underscored numbers in parentheses refer to the Bibliography, page 67.

2/ Trustees of Dartmouth College vs. Woodward, 4 Wheaton 518636 (1819).

certificate granted by the State. It is a legal entity and, consequently, may sue or be sued in its name. The corporate form of organization provides for permanence and perpetual succession as a corporate individual the persons who are its owners. The corporation is able to manage its own affairs and to hold property without perpetual conveyances for the purpose of transmitting the property from hand to hand. The life or existence of the corporation is not affected by changes in its membership. Transferable stock is held by its shareholders, who enjoy limited liability to creditors, provided their stock is fully paid. Transfer of stock or membership interest may be made without affecting the operation of the corporate business.

In addition to the right to sue or to be sued, all corporations have certain common law powers, such as the right to purchase, hold, and transfer property necessary for corporate purposes, the right to contract, and the right to use a corporate seal. A corporation also may use the general powers granted by its charter, such as the use of a particular name, the right to carry on a special business and issue a predetermined amount of capital stock, as well as any incidental powers allowable under the laws of the State of incorporation.

Within the State of incorporation an organization is known as a *domestic* corporation, and it has certain recognized powers and privileges incident to its existence; outside these boundaries, except for interstate commerce purposes, it has only such powers and rights as may be accorded a *foreign* corporation by the laws and customs of the particular State. States other than the State of incorporation may ignore the fictitious personality of a *foreign* corporation, refuse it recognition, debar it from initiating litigation in the State courts, and consider it a partnership in which each owner has an unlimited liability if litigation is brought against it, or even prohibit entirely its corporate operations within the State--except as it may be restrained by the provisions of Article I of the Constitution of the United States. 3/

Generally, however, no discrimination is exercised against a *foreign* corporation. In most States certain fees are assessed and other requirements must be met as a prerequisite to the exercise of the corporate rights by *foreign* corporations operating within the State, but on compliance with these demands they are accorded all the rights and privileges of domestic corporations.

There is wide variation in the corporation laws among the States. The selection of a State in which to incorporate, of course, is at the discretion of the incorporators. This choice involves a comparison of corporate advantages and limitations of other States with those of the State in which the business is located. For example, the low taxes of one State should be weighed against the less favorable requirements of corporation laws of another State. Tax and license costs, accrued in carrying on the business in the *home* State, also should be compared with those of other States. (For some of the variations in selected State statutes on the essential points to be considered in choosing a State of incorporation, see the Appendix.)

3/ For example, the Legislature of the State of Maryland has recently made it illegal for District of Columbia building and loan associations or similar *foreign* corporations to establish branches within the State.

Private Corporations

A private corporation is not an agency or instrumentality of government. It is a legal entity, organized in conformity with existing State statutes, and made up of individuals bound together for a common purpose or objective. A private corporation usually is organized for profit, but may be operated as a nonprofit organization.

When a private corporation is operated for profit, there are usually no restrictions on the sale of voting stock to any individual because of his occupation or profession. Nor are there restrictions on the number of shares of voting stock that may be held by any one individual. Stockholders have one vote in corporate affairs for each share of voting stock held. When a private corporation is operated on a nonprofit basis, the sale of shares of voting stock usually is restricted. A nonprofit market corporation probably would restrict the sale of this stock to farmers, truckers, wholesalers, and others directly concerned with the operation of the market, and would base the amount of stock sold to one individual or firm on the amount of facilities used. In some cases, eligible purchasers of voting stock also are required to purchase a specified number of shares of nonvoting stock. Through these restrictions on stock sales the number of stockholders' votes and the voice in management exercised by any one shareholder is limited. Under the laws in some States, nonprofit corporations are variously referred to as *cooperative corporations* or as *societies*.

A number of wholesale markets are owned and operated by private corporations. In some instances the principal stockholders in these corporations are food wholesalers. In other cases, the corporation is a railroad company or some other firm which was organized primarily for other types of business. Most of the large terminal produce markets built in the 1920's were sponsored by railroad companies which believed that such markets would increase the volume of tonnage handled by their lines.

Railroad companies own and operate wholesale food terminals in Pittsburgh, Pa. (fig. 2); Philadelphia, Pa.; Baltimore, Md.; Detroit, Mich.; Denver, Colo.; and some other cities. Other private corporations own wholesale food markets in Cleveland, Ohio (fig. 3a); Buffalo, N. Y. (fig. 3b); St. Louis, Mo.; Indianapolis, Ind.; Los Angeles, Calif.; Louisville, Ky.; Jacksonville, Fla. (fig. 4a); San Antonio, Tex. (fig. 4b); Houston, Tex.; Raleigh, N. C.; and Newark, N. J.

To form a private corporation, the incorporators usually obtain a charter from the State in which the market facility is to be located. Constant reference must be made to the statutes governing the formation of a corporation, for these laws specify certain procedures which must be followed in writing a certificate of incorporation. The certificate of incorporation, or charter, defines the power of the corporation and of its officers and directors. It also specifies what the stockholders' rights shall be and how they shall exercise their control. Usually the certificate of incorporation includes the following points: (1) Name of the corporation; (2) purpose (type of business) of the corporation; (3) number of shares of stock and their par value, if any; (4) location of the offices; (5) length of life of the corporation; (6) number of directors and their qualifications; (7) names and addresses of directors who will act until first annual meeting of the stockholders; (8) names and addresses of subscribers to certificate of incorporation and the number of shares each subscribed; (9) a statement that the subscribers are of legal age and that the required proportion are citizens of the State of incorporation and of the United States; and (10) designation of an official of the State in which incorporation is taking place to act as agent for service of process.

A.

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B.

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C.

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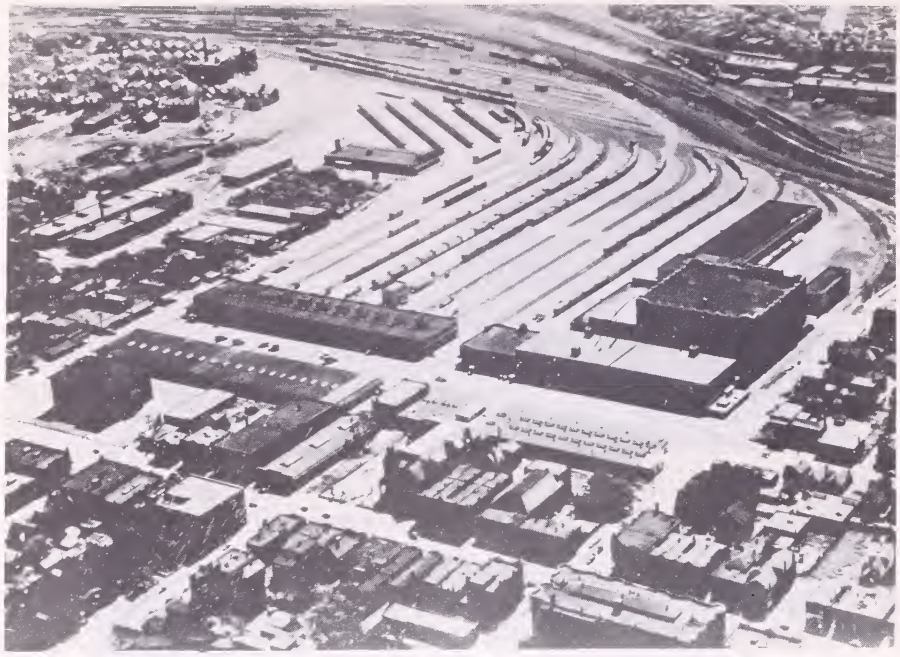
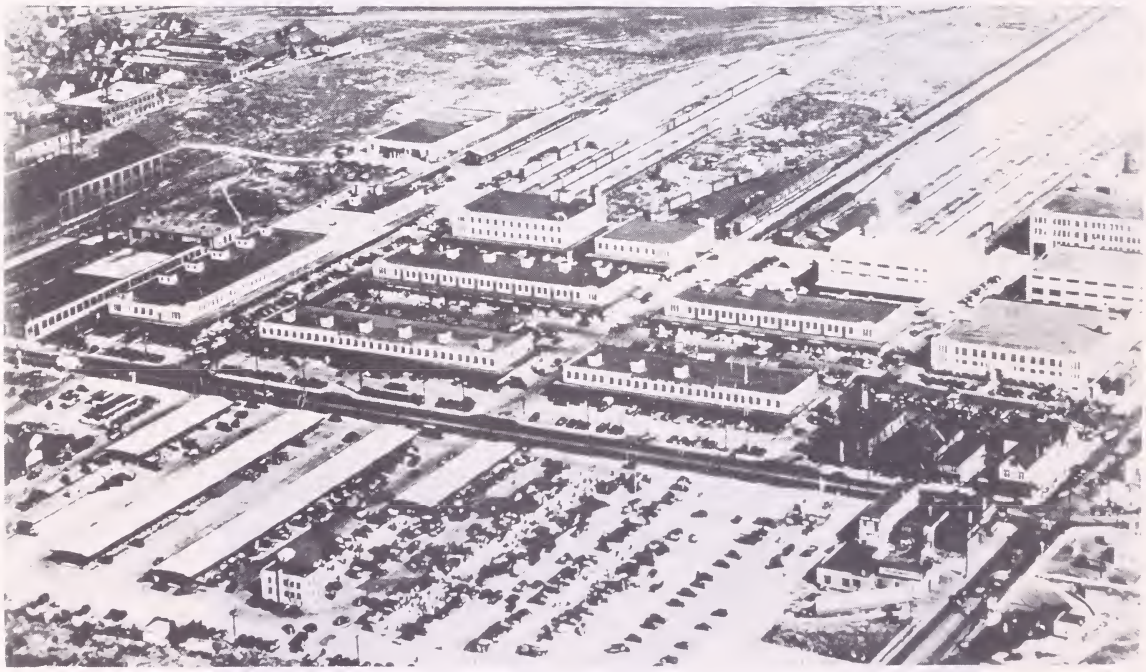
Figure 2.--Pennsylvania Railroad Produce Terminal in Pittsburgh, Pa.: (A) Northwest side, (B) southeast side (Smallman Street), and (C) team tracks at southeast side of terminal.



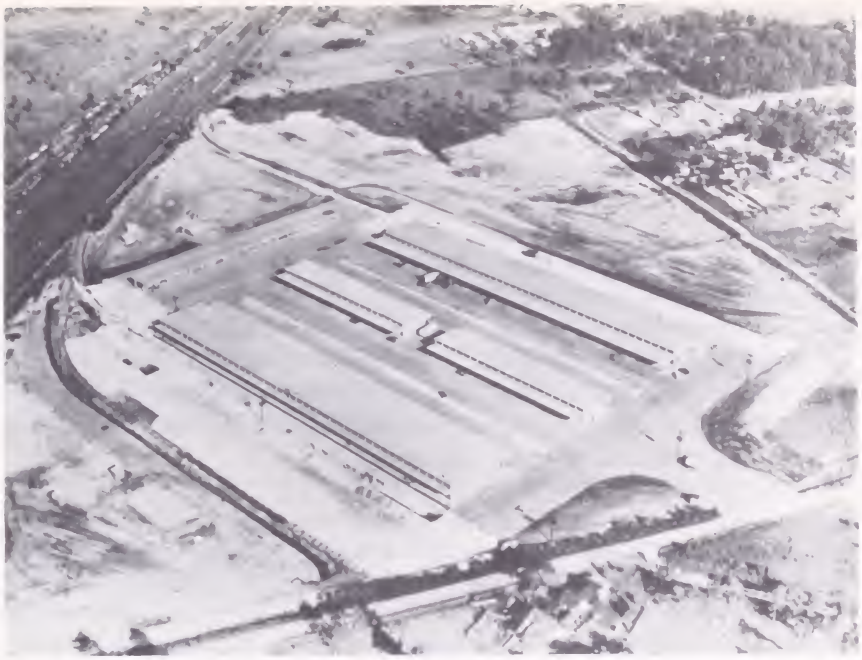
A. NEG. BN-3259



B. NEG. BN-3245

Figure 3.--View of wholesale produce market facilities: (A) Northern Ohio Food Terminal, Cleveland, Ohio, and (B) Niagara Frontier Food Terminal, Buffalo, N. Y.

A.



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B.

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Figure 4.--View of wholesale produce market facilities: (A) Produce Terminal of Jacksonville, Jacksonville, Fla., and (B) San Antonio Terminal Market, San Antonio, Tex.

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The certificate is acknowledged before a notary public and sent to the designated State official accompanied by a certified check covering filing fees and organization taxes. This official examines the certificate, and if satisfactory, affixes his certification and makes necessary copies, distributing them as required by law. Corporate existence commences immediately upon the filing of the certificate of incorporation with the secretary of State.

At their first meeting the stockholders usually adopt rules of conduct for the corporation. These rules, or bylaws, cover the location of the offices and places for the transaction of business, the requirements for calling annual and special meetings of the stockholders, forms of notices of meetings, the number of stockholders constituting a quorum, designation of officers and their functions, routine for issuing securities, times for dividend action, definition of the fiscal year, provisions for amendments, and other pertinent matters. The bylaws, together with the certificate of incorporation, constitute the operating plan of a market when organized as a corporation. 4/

Prior to the commencement of business and during the first meeting of the directors, a corporate seal is adopted, officers are elected, a bank for depository of funds is selected, offers to buy corporate stock are considered, and other important matters are passed upon.

Some of the characteristics of private corporations are as follows:

(1) State statutes place but few limitations on participation in the rights and activities of a private corporation because of the business or occupation of its members or stockholders, and such organizations are permitted to operate without many restrictions. However, membership in a private corporation can be limited or restricted through its bylaws. It is, therefore, possible for growers, wholesalers, retail grocers, and others who are directly concerned with the operation of a wholesale produce market to associate themselves in a private corporation, over which they can retain control, for the purpose of constructing and operating such a facility.

In those cases in which private corporations have been formed primarily as market corporations, most, if not all, of the facilities constructed are operated on a nonprofit basis. Although some reserves may be held for contingencies, these reserve funds usually are available for distribution to stockholders by the board of directors. Other private corporations that have constructed market facilities or produce terminals may have done so to meet competition or to expand other lines of business in which they are engaged. Direct profits from the operation of the facilities appear to be of secondary importance.

(2) Although the bylaws of a private corporation can be set up to provide that all groups who use or operate on a market shall be represented on the board of directors, this rarely is done except by corporations formed primarily for market purposes. Larger corporations operating market facilities as sideline enterprises have no particular incentive to provide such recognition to their lessees. Aside from the question of representation on boards, an advantage of this type of management is that boards of directors usually are able to make necessary decisions quickly and without the delay found in most other types of organizations. Quick decisions on major policy matters in some cases may be the difference between success or failure of a market.

4/ See sample set of bylaws for a wholesale produce market organization in *Wholesale Produce Markets--Management, Operating Expenses, and Income* (33, pp. 93-102).

(3) Private corporations are financed usually by selling bonds and by issuing stock. They may, of course, receive gifts or donations of land or money. The inability of some new private market corporations to sell the stocks and bonds they had authority to issue has proved to be a limitation on this type of ownership. Usually, the difficulty has stemmed from the failure of wholesalers, truckers, and farmers to invest their own funds in amounts sufficient to provide the equities needed to attract bond buyers.

(4) The bylaws of a private corporation may be written so that the tenants occupying the facilities during the period while the investment is being amortized will be able to recoup some of the higher rents and service charges paid during this period. Obviously, any privately owned facility has greater latitude in conveying the property itself, or other rights and prerogatives concerning the property, to individuals who helped to pay for it through rentals than a publicly owned facility.

Among the limitations of private corporations for market ownership are the following:

(1) There is a tendency for wholesale markets owned by private corporations to become *closed markets*. Markets owned by private corporations often adopt discriminatory practices. Some of these markets prohibit food items being brought into the market by motortruck, particularly by out-of-State trucks. In some of the markets, management and operation has fallen into the hands of a few major stockholders. In situations of this kind, the interests of other market patrons are rarely considered by those in charge of the organization.

(2) In some localities, private corporations operating wholesale produce markets have complete control of the enterprise to the exclusion of growers, wholesalers, and other types of food handlers. In most cases the original facility is of a size and design that will serve only the charter members of the corporation at the time of construction. Often no space has been provided for future expansion either for increased volumes that might be handled by the same individuals or for new food handlers and allied industries. Although these situations can be attributed partly to the difficulty of financing the acquisition of land, which will bring in no immediate revenue, they also can be attributed partly to the desires of these private corporations to capitalize on their monopoly of space.

Public Benefit Corporations

Public authorities which are created by State or local governments to construct and operate market facilities are usually organized as public benefit corporations.

The emergence of the public authority, without the power to tax or levy special assessments, but with the right to levy user-charges and the power to issue revenue bonds, occurred to a limited extent prior to World War II. One of the more important authorities established during that period was the Port of New York Authority, which was created in 1921 by a compact between the State of New York and State of New Jersey. The compact set up the Authority as a corporate body with full power and authority to purchase, construct, lease and/or operate any terminal or transportation facility within the port district of New York City. It levies user-charges and issues revenue bonds. The Port of New York Authority's definition of *terminal facility* has been extended over the years so that it now includes the ownership and operation of wharves, piers, ferries, docks, airports, grain elevators, warehouses, and other marketing and storage facilities. The programs of the Authority have involved the selling of more than $700 million of Port Authority bonds.

It was not until 1933 that the public authorities were created in New York State to provide wholesale market facilities for fruits, vegetables, and other produce items. In 1933 the New York State Legislature established the Central New York Regional Market Authority to construct and operate facilities for buying and selling farm produce in the central part of the State. Subsequently, wholesale produce market facilities, financed in part by revenue bonds issued by the Authority, were built in Syracuse (fig. 5a) and Utica. The Lower Hudson Regional Market Authority was established in 1937, and a market was built at Newburgh. In 1951, creation of the Genesee Valley Regional Market Authority was authorized, and in October 1956 it dedicated a new wholesale produce market near Rochester (fig. 5b).

The several laws authorizing the creation of the market authorities in New York State are similar in most respects, with the exception of the regional designation and the amount of State appropriation. Each Authority has a board of directors; all directors except one are appointed by the various boards of supervisors of counties included in the region. One member of each board is the State Commissioner of Agriculture and Markets or his representative. One of the board members appointed from each county must be a farmer, who must actually sell all or part of his produce on the market when it is established. The board of directors has authority to prepare plans and contract to build market facilities; hire all employees or other officers; operate all market facilities owned by the authority within the district; prepare plans for financing the acquisition, construction, equipment, and operation of any market facilities; and make and enforce rules and regulations governing the authority's market facilities.

The New York State Legislature appropriates and loans to an *Authority* up to 50 percent of the cost of constructing approved new facilities or the repair and expansion of existing market facilities under their control. The remainder of the cost is financed by the issue and sale of revenue bonds. The State loan is without interest and is paid back in annual installments.

Other State legislatures which have authorized establishment of public market authorities, organized as public benefit corporations, to build or improve wholesale produce marketing facilities include: (1) Virginia, where produce market authorities may be established by the governor in cities having a population of more than 30,000 upon receiving a petition from the city council or other governing body of the municipality. (2) Georgia, where early in 1955 the State Legislature enacted a law creating a State Market Authority to provide for financing, constructing, or improving present and future *State farmers' markets*. The law authorizes the Authority to issue revenue bonds in the amount of $8 million to supplement the present State-owned farmers market system. (3) South Carolina, where the State Agricultural Marketing Commission is authorized to assist certain localities in setting up local marketing authorities to provide more efficient facilities when local growers provide part of the funds or facilities. Some of the authorities created are the Long Creek Apple Authority, the Anderson Marketing Authority, the Colleton County Marketing Authority, and the Pageland Marketing Authority. (4) Connecticut, where an authority operates a market at Hartford and is planning a market for New Haven; and (5) Michigan, where the Legislature in 1956 authorized the establishing of a municipal authority provided the facilities built by it handled only nonprocessed farm products.

Public authorities of this type are legal entities and usually have the prerogatives given to local political subdivisions. Generally, they are considered as instruments of State or local governments.

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B.

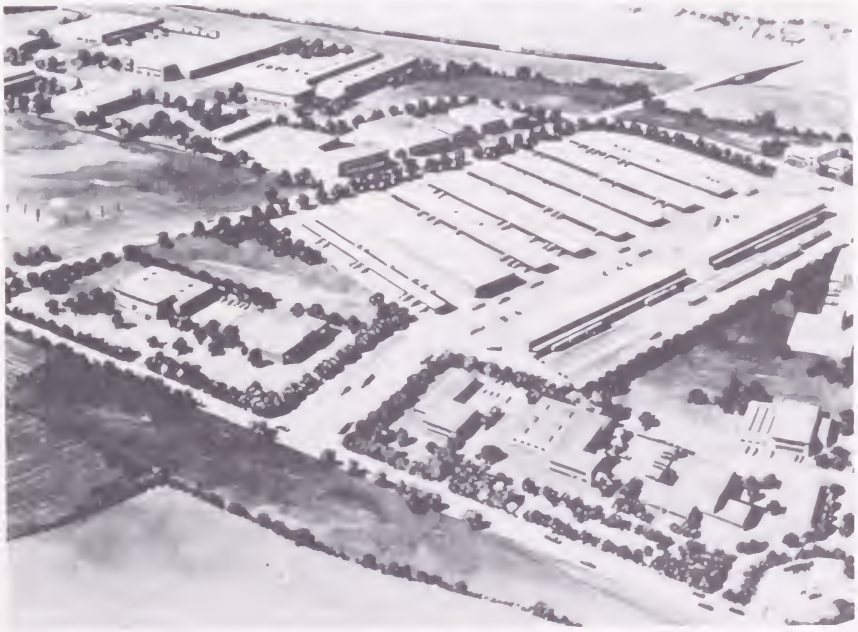

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Figure 5.--(A) Aerial view of wholesale produce market facilities, Central New York Regional Market Authority, Syracuse, N. Y., and (B) architect's sketch of Genesee Valley Regional Market Authority, Rochester, N. Y., opened in October 1956.

The creation of State or regional public authorities usually has been accomplished by special acts of the State legislatures. However, in some States, State or regional authorities may be created by action of a State executive, pursuant to legislative authorization, under the general corporation law.

If appropriate State enabling legislation has been enacted, the governor, commissioner of agriculture, or State marketing commission usually has the power to issue a certificate creating a market authority on petition from a group of farmers or wholesale food dealers, or from a city or other political subdivision of the State. If there is no such enabling legislation in existence, a first step would be to have enabling legislation passed by the State legislature. An outline of the type of legislation that would be necessary to create a market authority is included in the Appendix. This outline was developed by the Council of State Governments and Federal administrative agencies in cooperation with the Department of Justice (12).

If enabling legislation covering the creation of market authorities has been passed, the State legislature ordinarily has given the authority autonomy and freedom from regular State administrative controls so that it may operate along the customary lines of private business. However, the State legislatures have set certain limits of freedom through statutory specifications and special approval requirements. Moreover, the States have retained means of guiding actions along lines of overall policies through the use of ex-officio directors and gubernatorial appointments of other officers.

Market authorities are usually organized as public benefit corporations. This type of organization offers a number of desirable features not found in some other types of ownerships. Among these features are: (1) A public benefit corporation is a nonprofit agency. As such, rentals and other charges do not exceed the amount needed to pay the costs of operation, amortize the original investment, and maintain a limited reserve for contingencies. There is no incentive to accumulate excessive reserves under this type of ownership. Because of public ownership and because the revenues obtained would be considered as public funds, the reserve funds could not be paid to lessees as dividends. Of course rental rates could be substantially reduced over a period of sufficient length to wipe out excessive reserves. However, there always is the danger that excessive reserves of funds of this type might be *appropriated* for other public uses unless they specifically are committed to the redemption of outstanding bonds. (2) Market authorities usually have the power of eminent domain, which can be very useful in the acquisition of a site. (3) State enabling legislation can, and usually does, specify what groups are to be represented on the boards of directors of market authorities. Such representation usually is apportioned among these groups so as to give all of them an equal voice in management. Moreover, such legislation usually limits the field from which the original appointees to these boards can be made and provides for the election of members by the various groups following the expiration of the terms of office of the first board members. (4) Ideally, such corporations finance market improvements only through the sale of revenue bonds, just as some water and sewer districts finance capital improvements. This type of financing usually is not a *full faith and credit* obligation of a State or a political subdivision. Therefore, market facilities financed by the sale of revenue bonds, associated with a public enterprise, theoretically do not constitute an additional public tax burden. Even so, the association of the bonds with a State or political subdivision may result in the sale of the bonds at more favorable rates than those obtained by some private firms offering similar bonds having comparable backing. (5) A public agency,

such as a market authority, particularly when *subsidized* through appropriations of public funds or donations of public land, is more likely to provide for future expansion and to work toward the establishment of a complete wholesale food center than some types of private ownership. (6) A market authority may or may not be required to pay taxes to the community in which it is located.

Market authorities also have certain limitations, especially with respect to the financing and management of the facilities. For example: One of their most serious limitations lies in their inability to raise funds for capital improvements, except through the sale of revenue bonds. As previously pointed out, to overcome this limitation, some State or city governments have appropriated part of the funds needed for land acquisition and the original construction and, in addition, have authorized the purchase of a certain percentage of the market authority's revenue bonds. Some authorities have been unable to build facilities because they were not supplied with equity capital and could not meet all their capital requirements by borrowing. As a rule, a market authority must have either equity funds or State (or city) responsibility for its loans. Furthermore, the requirement for including representatives of all interested groups on the board of directors has in some instances slowed down the accomplishment of desired objectives. Moreover, the continuity of management on some markets, at times, has been dependent on the continuance of a State or municipal government administration in office. As a whole, market authorities do not have as complete freedom of operation as is possible under private ownership. They are required to submit to many governmental reports and audits not usually required of a private corporation.

Direct Public Ownership

A number of wholesale food market facilities have been financed and constructed and are now operated by States, counties, or municipalities. Several States and a number of municipalities have enabling legislation covering the improvement or establishment of produce markets. Included in the Appendix is a digest of the enabling legislation in selected States. As shown in this table, there is little uniformity in the acts passed in these States.

State Ownership

Direct State ownership and operation of a wholesale market facility usually can be differentiated from ownership and operation by a State market authority by the methods of financing used and the delegation of authority made by the State legislature. Although a number of States have appropriated funds for and otherwise assisted market authorities with financial problems, they do not usually underwrite the total cost of a market constructed by an authority. Nor have the States assumed responsibility for the operation of these markets after they were constructed. Direct State ownership contemplates that a market facility will be financed in whole or in greater part by an appropriation of State funds. If not financed in its entirety by this method, the State usually is obligated for the remainder, unless this balance is obtained through grants or donations. Also, the State is responsible for maintenance and other expenses involved in the operation of a State-owned market.

In some cases, State legislatures have appropriated part of the funds for a State market project and authorized a State board or commission to issue revenue bonds for the remainder. If this authority is given to a board or commission, the agency has one of the more important

aspects of a market authority, but may not in reality become an authority in all respects. Another method, infrequently used for raising part of the funds needed for a State market project, is the advance collection of rentals and the sale of concessions.

Most States that have financed and now operate markets have not required the amortization or repayment of appropriated State funds. However, they usually have expected the market management to pay all operating costs from revenues obtained from rentals, fees, and concessions. This policy has resulted in relatively low rental rates on some State-owned markets.

In some cases State legislatures have authorized construction of State-owned markets without limiting the number or specifying the locations. In other cases legislatures have authorized a specified number of markets. In still others, these bodies have authorized a single market in a single location. The authorization by the legislature may be given to a State official, such as the commissioner of agriculture, or to an existing State board or commission; or new officers or boards may be created. When new market boards or commissions have been created, the membership usually has consisted of the State commissioner of agriculture plus representatives of farmer and trade groups.

Although the facilities owned by the States are predominantly assembly or shipping point markets, several State-owned markets are located in relatively large centers of population. Examples of markets located in a city are Columbia, S. C., Atlanta and Savannah, Ga., and Jackson, Miss. State-owned markets in producing areas include those in Florida and Georgia.

A brief description of the approach used by several States in the development of markets is given below to illustrate more fully the variations discussed above.

South Carolina.--In 1948 the State Legislature authorized the creation of a State Agricultural Marketing Commission consisting of 7 members. The commission is empowered to construct or improve, and to operate facilities for marketing farm products. It has built and now operates a wholesale produce market at Columbia (fig. 6). Part of the initial funds were appropriated by the State, part by Richland County, and part by the city of Columbia, but the larger part of the investment was raised by selling revenue bonds to investment houses. In 1955, the fourth year of operation, the total value of all products handled on the market was $20 million.

The commission also has assisted a number of local areas in constructing improved markets. These markets are not State-owned facilities. The marketing commission is working toward a complete system of local markets with local organizations operating their own facilities.

Florida.--An act authorizing establishment of the Florida State market system was passed by the State Legislature in 1933. The first market was built at Sanford in 1934. In 1955, there were 19 farmers' shipping point markets in the system which, in 1954, handled products valued at nearly $40 million. State market facilities at Palmetto and Plant City, Fla., are shown in figure 7.

All of the Florida markets in the State-owned system are concentration or shipping point markets. There are no State-owned markets in the larger cities.

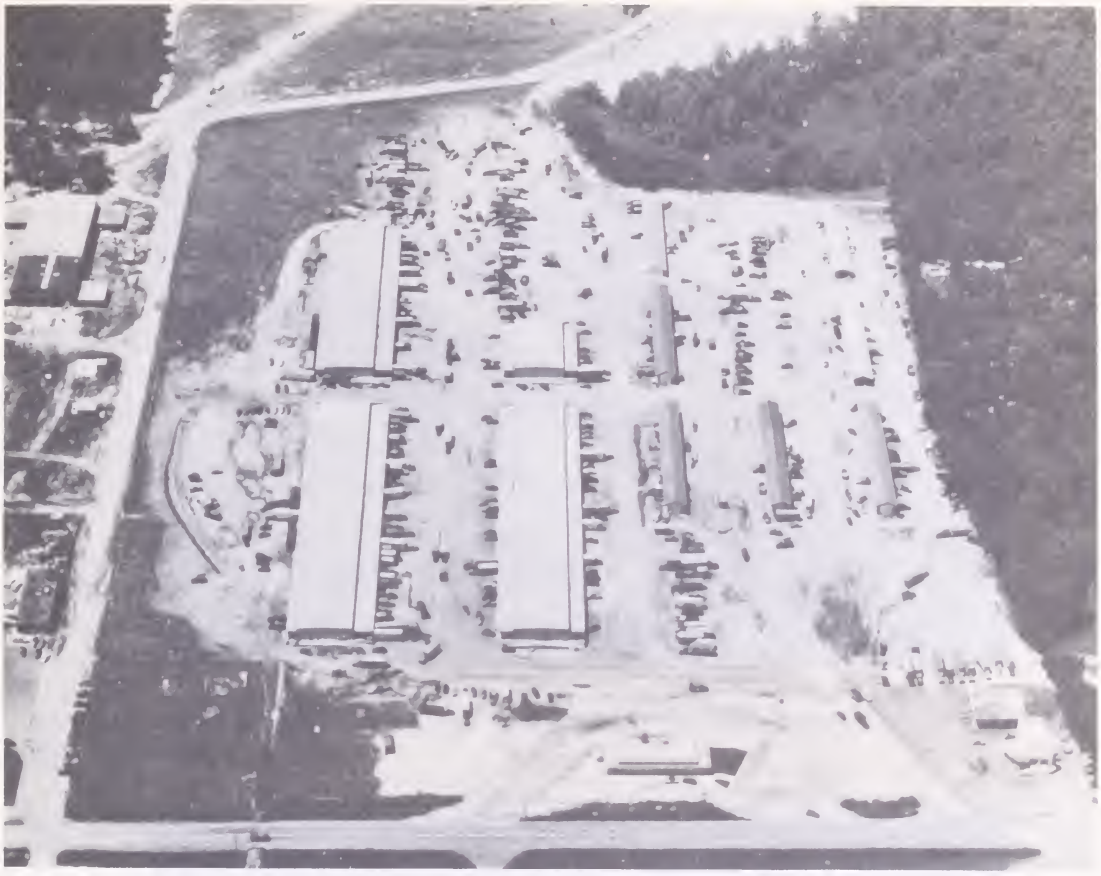

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Figure 6.--View of market facilities at State Farmers Market, Columbia, S. C.

The purpose of the act of 1933 was to provide convenient, dependable outlets through which farmers could market their products and receive cash at the time of sale. The act created a State Agricultural Marketing Board, the membership of which is comprised of the governor, commissioner of agriculture, and the State marketing commissioner. Active direction of the markets is in the hands of the director of markets and his assistants. The board has authority to acquire suitable sites, erect necessary produce marketing facilities, and equip, maintain, and operate them for the handling of all staple field crops, meats, fruits, vegetables, poultry, dairy products, and all other food products from the farm. It also has authority to rent or lease space on the markets to farmers or truckers, to store or refrigerate perishable produce, to employ managers and other help necessary to operate the markets, and to make charges for services that will cover the cost of operation and maintenance of the markets. The board also has the power to operate bonded warehouses for storing farm products where commercial facilities are not available. In many instances, local interests are asked to provide a market site, and they may be asked also to provide certain financial and other requirements, before the State will erect market facilities.

The act provides that all collections be deposited monthly with the State treasurer to the credit of the General Inspection Fund, Special Farmers' Markets Account. This fund is used to meet the expenses of operations and maintenance and to purchase equipment for

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A.

NEG. BN-3246

B.

NEG. BN-3251

Figure 7.--Sales sheds and pavilions at Florida State farmers markets in (A) Palmetto and (B) Plant City.

the markets. The act also provides that additional funds necessary to defray the expenses of erecting, equipping, maintaining, and operating markets may be authorized and expended from the General Inspection Fund.

Although the director of State markets and his assistants exercise overall supervision of the markets, each market has an advisory board. The manager and other market personnel are employed by the State board. The State employs a traveling maintenance and building crew which handles most of the repairs and construction for all State-owned markets.

Georgia.--The Georgia market law passed in 1935 authorizes the commissioner of agriculture to establish State-owned produce markets. 5/ In 1955 there were 26 produce markets in the State system, 2 of which are shown in figure 8. The commissioner is authorized to purchase, lease, or rent market sites and to construct facilities. The commissioner does not have power of eminent domain. The market facilities are subject to municipal zoning laws, and fire and health regulations.

The commissioner of agriculture prescribes grades and classes for farm products. He provides graders and classifiers for produce received in the markets (the State inspectors inspect all fruits, vegetables, and truck crops coming into Georgia markets or offered for sale within the State). He can embargo such shipments from outside the State, if the Georgia growers' supply is ample. The commissioner also prescribes and collects rents and other charges to pay the costs of acquiring, operating, and maintaining the markets and to erect the necessary market buildings.

The act provides that, whenever any farm products unfit for food shall be found on any market in the State, a food inspector can condemn the shipment and forbid its being sold in the State. The commissioner of agriculture is empowered to make and promulgate such rules and regulations which may be necessary to enforce the provisions of the act.

All funds collected under the market act are deposited with the State treasurer in a separate fund to be paid out on warrants signed by the governor for carrying out the provisions of the act. Appropriations have been made by the State Legislature from time to time for the construction of new or additional facilities.

The commissioner is authorized to fix minimum prices on the different grades and classes of produce offered for sale and can refuse permission to anyone to sell any fruits, vegetables, or truck crops within the bounds of any market established, at a price lower than the minimum fixed by him.

Mississippi.--Another example of direct State ownership of wholesale produce market facilities is the Mississippi Central Farmers' Market at Jackson. The construction of this facility was financed by direct appropriations of the State Legislature. State-owned land also was made available for the market site.

5/ Early in 1955, the Georgia General Assembly authorized the establishment of a State Farmers Market Authority, to provide for the financing, construction, and improvement of present and future State Farmers Markets. The authority is authorized to issue revenue bonds in the amount of $8 million.

A. NEG. BN-3253

B. NEG.N-17658

Figure 8.--View of market facilities at Georgia State farmers markets in (A) Atlanta and (B) Savannah.

In authorizing the construction and operation of this market, the State Legislature created the Central Market Board consisting of 5 members. The State Commissioner of Agriculture serves as ex-officio chairman of the board. Two farmers, 1 wholesaler, and 1 retail grocer, all appointed by the Governor--1 from each State highway district and 1 from the State at large--make up the remaining membership. The board selects an executive officer, who is known as the State Market Manager.

The authority of the State Market Board is limited to the operation of the Jackson market. With respect to this market, it has authority to erect and install such structures, facilities, and equipment as may be necessary for processing and marketing of any food or feed products. The board has the power to fix salaries, set up rental schedules and other charges for each type of facility constructed on a market, formulate and adopt a financial building and operating program, make rules and regulations for the operation of the market facilities, provide and enforce penalties for breaches of regulations, and determine hours of operation of a market facility. Revenues from rentals and fees are used to pay for the operation and maintenance of the market.

Municipal and County Ownership

Wholesale markets also are owned and operated by a number of municipalities, including: Kansas City, Mo.: Detroit, Grand Rapids, and Benton Harbor, Mich.; Minneapolis and St. Paul, Minn.; and Dallas, Tex. Counties own and operate markets at Greenville, S. C., and Nashville, Tenn. Views of the old and new markets in Nashville are shown in figure 9. Municipal or county ownership of a wholesale produce market is comparable in many of its basic aspects to direct State ownership. A number of municipalities are authorized in their charters to construct and operate food markets. Some cities, particularly the larger Texas municipalities, have the exclusive right to operate public-type markets within their corporate limits. However, in some cases, city councils or commissions are not authorized to make appropriations from general funds in the city treasury for the construction of market facilities on a basis comparable to that of a State legislative body. Three methods are usually open to municipalities for financing a market program: (1) Issuance of municipal bonds; (2) issuance of revenue warrants; and (3) loans from public corporations. In most cities the issuance of bonds for such purposes must be approved by a majority of the qualified electorate voting in a referendum.

The operation of a municipally owned market usually is the responsibility of one member of the city council or commission, who is designated *commissioner of markets* or given an equivalent title. However, in some cities the entire commission serves as a *market board*. Limitations in many city charters prevent the delegation of authority by the city councils or commissions to a special body, such as a market board, for the operation and control of a municipally owned facility. Where such limitations exist, growers, wholesale food dealers, and retail grocers can be given no voice, except advisory, in the management of the market.

Although several State statutes provide for municipal ownership of certain types of facilities, such as hospitals and parking facilities, specific reference to ownership of a

A.

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B.

NEG. BN-3277

Figure 9.--Davidson County, Tenn., farmers market facilities, Nashville, Tenn.: (A) Old market, early morning, Saturday, August 18, 1951; (B) completed facility on new site, October 1956.

facility for marketing food products may not be included. When no provision is made for municipal ownership of a market facility, enabling legislation may be needed. 6/

City ordinances covering the ownership and operation of municipal markets are usually in a rather simple form (33). They may provide that a commissioner of markets, or other municipal official, assume the duties in respect to operation of the market. He usually is given the authority to: (1) Exercise general supervision over the market and enforce regulations for its operation; (2) examine quality of all articles offered or exposed for sale in the market, and notify the health department inspector to examine any unwholesome food that appears on the market; (3) examine the weights and measures of articles offered for sale; (4) enforce order on the market area and decide all disputes that may arise between buyer and seller; (5) keep the market reasonably clean and sanitary; (6) make necessary financial reports and pay to the city treasurer any amounts due him; (7) pay all bills; (8) hire all employees; and (9) establish all rental rates for using facilities of the market.

County ownership and operation of wholesale food markets is not very common. One of the reasons counties have not been more active in market improvement programs is that they usually must seek authority from the State Legislature before a facility can be financed, constructed, and operated. In both Davidson County, Tenn., and Greenville County, S. C., special acts of the respective State Legislatures were necessary. The acts created county market commissions or authorities and authorized these agencies to acquire land, plan and construct facilities, and operate the markets. In both cases, limitations were placed on the amounts that could be expended.

There are a number of advantages and limitations to public ownership of wholesale food market facilities. States usually finance, construct, and operate wholesale produce market facilities because legislative bodies feel that improved facilities will, in themselves, serve the public interest. As a consequence, market facilities owned directly by a State usually are operated on a nonprofit basis. However, in a few cases, where a market is part of a State-owned system of markets, surplus revenues from one market have been used to subsidize the operations of other markets. Designated State officials or boards may determine the rental rates needed to produce the required revenue and can maintain operating reserves at a minimum, and thus protect the interests of both farmers and consumers. A State-owned market facility is financed, in whole or in part, through an appropriation of State funds. When an appropriation is made, the plans, if any, for amortization or repayment of the investment usually are included in the appropriation act. A State-owned facility also may be financed in part by the issuance of revenue bonds. Obviously, such bonds always must be amortized from market revenues.

The management of a State-owned market may be in the hands of one State official, a group of State officials, or a group of individuals appointed by State officials from lists submitted by interested groups, depending on State laws. When management is in the hands of a board or commission appointed by State officials, there is no reason why representation

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6/ For examples of city ordinances governing municipal produce markets, see *Wholesale Produce Markets--Management, Operating Expenses, and Income* (33, p. 29).

cannot be given to all groups who will use the facility. In fact, most State laws providing for this type of managerial board usually specify that these groups shall have membership. When one State official or a group of them have managerial responsibility, the continuity of management may depend on the continuance of a State government administration in office. As a rule, States have been more responsive than other groups or agencies toward investing funds or otherwise providing for the longer range needs of wholesale food markets. Usually such investments have made possible the acquisition of land for future expansion both for the produce trade and for other food handlers. Because of States' interest in health, traffic, and related problems, there usually has been close cooperation with county or municipal authorities on traffic regulations, hours of operation, and sanitation problems.

Under State ownership the interests of tenants who have occupied facilities during the amortization period can be protected only if the tenants are given long-term lease contracts which they are permitted to sell if they so desire. State ownership does not provide for stock ownership or for any ultimate ownership of facilities by tenants.

As a rule, counties and municipalities also operate market facilities on a nonprofit basis. Officials in charge of markets may determine the rental rates that are needed to provide the required revenue and reduce operating margins to a minimum, thereby holding down operating costs of the farmer and dealer.

Limitations in a number of city charters prevent the delegation of authority by the city councils or commissions to a specific body such as a market board for the operation and control of a municipally owned facility. Where such limitations exist, growers, wholesale dealers, and retail grocers can be given no voice, except advisory, in the management of the market, unless the city charters are amended. Continuity of management under municipal ownership should not be dependent upon the administration of municipal government, changes in which would likely bring about changes in the market management.

Because many counties have no delegated authority with respect to financing and operating market facilities, State legislation obtained by counties for this purpose has provided for the establishment of market boards or commissions. The laws usually provide that farmers, wholesale produce dealers, and retail grocers shall be given membership. Municipal ownership may help protect the consumers' interest since the city also has the authority to establish and maintain sanitary standards and traffic controls, and to provide city streets.

Like the State-owned markets, the interest of tenants who occupy facilities of city- or county-owned markets during the amortization period can be protected only if the tenants are given long-term lease contracts which they can sell if they so desire. A market owned by a municipality or a county would not issue capital stock.

Sellers and other market patrons located outside the municipality cannot receive full consideration because they are not voters in the municipality and have no voice in management. As a municipal produce market usually serves producers and consumers from over a wide area, many city officials do not feel that municipal governments should take full responsibility for providing proper market facilities to serve these people. Some municipalities have reached the limit of their bonded indebtedness and cannot obtain the money to construct facilities, even though proper financing would permit amortization of the charges and original investment without an added burden to the taxpayers. In several instances, the operation of city-owned

market facilities has been severely hampered by restrictive ordinances which prohibit the sale of food products on a market unless they are locally grown or are sold by local producers. In many localities only local producers are permitted by the regulations to sell from city-owned farmers' market facilities, and wholesale food dealers, brokers, and others are excluded. This restriction hampers the operation of the markets and limits their completeness.

Farmers' Cooperative Associations

A number of assembly or shipping point market facilities are owned and operated by farmers' cooperative associations. Such associations also own and operate a few city markets. In some localities they own and operate only the facilities in the farmers' sections. In others, farmers' cooperatives own and operate the entire city wholesale market facility.

A farmers' cooperative association is a business organization, which operates for the mutual benefit of its members or stockholders as producers or patrons. It is usually incorporated, owned, and controlled by member agricultural producers. The association is operated on a cost basis, after allowing for the expenses of operation and maintenance, any other authorized deductions for expansion, and a necessary reserve. In a cooperative, the financial benefits accrue to its clients, whereas in a commercial enterprise they accrue to those who have invested their money in the business and have bought stock (37). In the marketing of farm and food products and the purchasing of supplies, cooperatives usually own and operate such facilities as they deem necessary.

Laws which authorize the formation of farmers' cooperatives are not of recent origin in the United States. In 1865 the Michigan Legislature enacted the first State statute for incorporating cooperative associations. (Laws of Michigan, 1865, Act. No. 288.) The second such act was passed in Massachusetts in 1866 (Acts of the General Court of Massachusetts c. 290, 1866). Other statutes were enacted in Pennsylvania in 1868, in Minnesota in 1870, and in Connecticut in 1875. Many of the States, however, did not enact such laws until 1920, or later. There is no substantial degree of uniformity in the cooperative organization laws of the various States. In general, however, each State statute provides that the incorporators must be residents of the State and producers of agricultural products. Primarily these laws are designed so that groups of farmers may associate together in marketing farm products, purchasing farm supplies, and furnishing farm business services; the laws are not particularly applicable to setting up market organizations. Therefore, they should be consulted carefully if it is decided that a market will be organized as a farmers' cooperative.

Most of the older farmer cooperative markets originally were organized with capital structures which differed very little from those of other business organizations; usually they were organized as corporations with capital stock. Typically, they issued only common stock, which was divided into shares having a substantial par value. In recent years, however, an increasing number of farmer cooperative markets have been reorganized as nonstock membership corporations, with little or no permanent capital, and even, in some market organizations, as stock cooperatives. The trend is toward decreasing the par value of shares and the proportion of permanent capital and increasing the proportion of temporary or interim capital (37).

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The farmers' cooperative is commonly organized on the principle of one vote per member, rather than one vote for each share of stock that a stockholder may own.

As previously indicated, a farmers' cooperative is a nonprofit organization. At the end of each fiscal year any excess amounts over costs of operation, maintenance, and needed reserves usually are returned to members in proportion to the volume of business each one did through the cooperative.

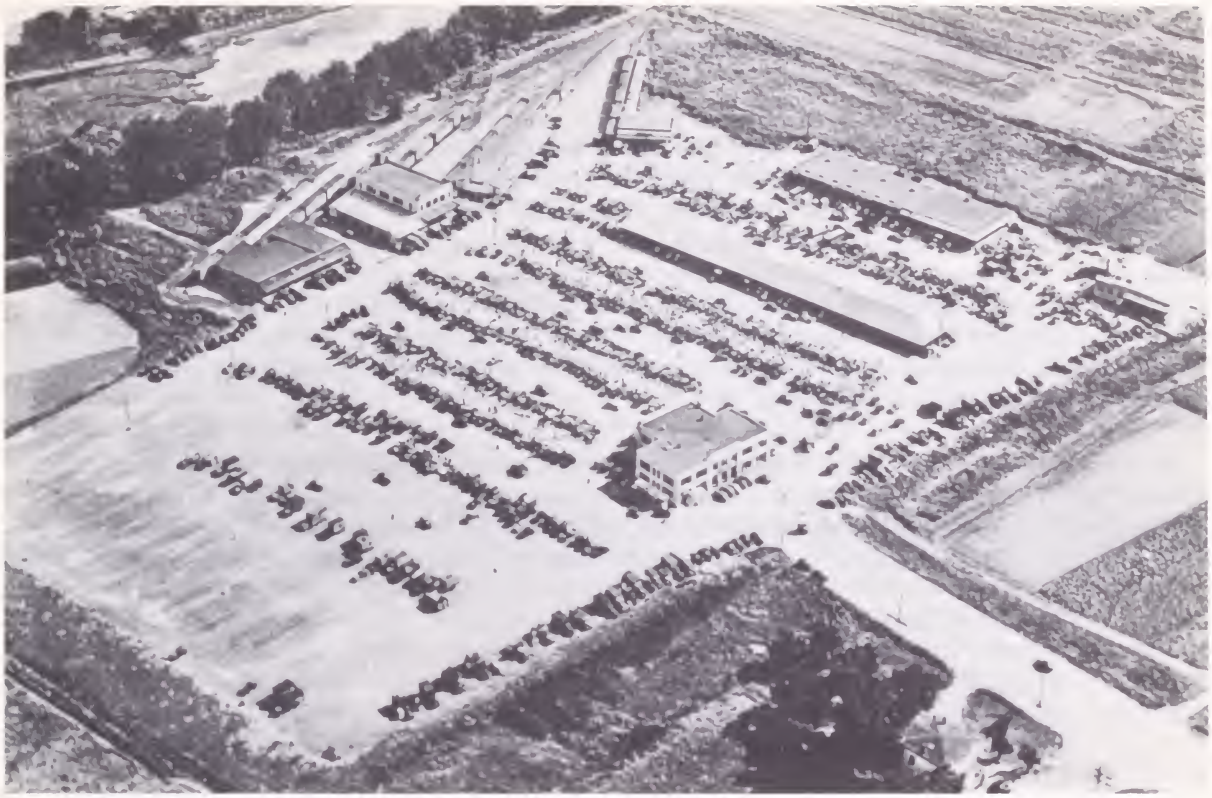
Most State laws limit returns on capital by specifying the maximum returns that may be paid on invested capital by cooperatives meeting the requirements of the statutes. Cooperative associations may pay the maximum or any lesser amount they may choose. In most State statutes the maximum is fixed at 8 percent.

The Federal cooperative law--the Capper-Volstead Act--specifies that marketing cooperatives organized under its provisions must be operated for the mutual benefit of their members and must meet one or both of the following requirements: (1) No member shall have more than one vote regardless of his investment in the cooperative or (2) the association shall not pay more than 8 percent of its stock or member capital. In any case a qualifying association organized under the Capper-Volstead Act shall not deal in the products of nonmembers in an amount greater in value than the amount handled for members. A farmers' cooperative differs in this respect from an ordinary business corporation whose business normally comes from those who have no investment in the corporation. A farmers' cooperative also must fix annual dividends on its capital stock at not to exceed the legal rate of interest in the State of incorporation or 8 percent, whichever is the greater, if it is to qualify for exemption from payment of Federal income taxes under the Internal Revenue Code.

A farmers' cooperative association, like a corporation, may raise money either by subscription of funds by its members or by borrowing. There is no fixed rule as to the relation of the amount of borrowed capital to membership investment in a new cooperative. The Federal Farm Credit Act of 1933 restricts the amount which the Banks for Cooperatives may loan on fixed assets to 60 percent of their value.

Farmers' cooperatives attempt to emphasize service to their members and savings in operations, rather than dividends to be paid on invested capital. Most of the concentration or shipping point fruit and vegetable markets in New Jersey are owned and operated by farmers' cooperatives. The farmers' section of the Niagara Frontier Food Terminal Market, at Buffalo, N. Y., also is owned and operated by a farmers' cooperative. A farmers' stock company, which has many of the earmarks of a cooperative, owns and operates the farmers' section of the Denargo Market at Denver, Colo. The market at Menands, N. Y. (near Albany and Troy), is owned and operated by a farmers' cooperative. A view of the Menands market is shown in fig. 10.

Farmers' cooperatives also have some advantages and limitations. They are similar to private nonprofit corporations discussed in a previous chapter, except that membership is limited to farmers or producers of agricultural products. Similarly, in financing market facilities, preferred stock, bond debentures, certificates of indebtedness, and similar evidences of equity may be sold to those who are neither farmers nor members of the association.



NEG. BN-3252

Figure 10.--View of sales facilities on Capital District Market, Menands, N. Y.

Groups other than farmers or agricultural producers who might use the market facility are not given a voice in its management, and they receive no return for their patronage of the facility. This limitation would be a deterrent in attempting to organize a market facility as a farmers' cooperative where a large part of the business is done by wholesale food dealers.

Agricultural cooperatives which comply with rather rigid requirements are accorded special treatment under the Federal income tax laws. In some States farmer cooperatives are exempt from payment of State income tax. However, cooperatives pay property taxes and other taxes paid by businessess, as required by law.

Others

Wholesale food markets may be established by various combinations of the above methods. In Philadelphia a food center is being built by a nonprofit private corporation on land owned and put in condition for building by the city. In other places one part of a market is owned by one agency and other parts by other agencies, as in Buffalo, N. Y. As a matter of fact, it is rather common for one agency to own the original market structures and for other agencies to establish adjacent facilities for their own use; thus, a market district with several ownerships is created.

PREPARING THE PROSPECTUS

Care should be taken in launching a new market enterprise to determine just what advantages it would have, if any, over the facilities being used. Unless it would have advantages that could readily be *sold* to prospective tenants, it is doubtful whether investors would see these advantages either. Sponsors of a market facility should bear in mind the hazards to which new organizations are exposed. Each organizational detail should be well thought out, investigations followed through to the limit of available resources and information, and every possible means employed to assure that the project is soundly conceived. Lack of thorough and careful analysis before launching the project; incomplete, incorrect, or misleading conclusions drawn from the analysis, or defective planning of facilities may be fatal to the success of the project.

Obviously, the sponsors of wholesale food markets will be constantly confronted with financial problems. Capital will be needed for preliminary promotion and organization expenses, land acquisition, construction, and operating expenses. Among the questions that market sponsors should consider before they approach investors or attempt to borrow funds are:

(1) Why is the capital needed?
(2) When will it be needed?
(3) How long will it be needed?
(4) How much capital will be needed?
(5) How shall it be repaid?

Providing satisfactory answers to these questions is the first step in influencing prospective investors. Some of the more important factors affecting the financing of a new produce market facility are discussed in the sections that follow.

Determining Purposes for Which Funds Will Be Needed

A market organization will heed to obtain funds for four main purposes: (a) Setting up an organization, making preliminary engineering, economic, and accounting studies, and obtaining land options; (b) acquiring and putting land in condition to build; (c) constructing buildings, streets, rail lines, and related facilities; and (d) working or operating capital needs, such as paying for salaries and wages, and purchasing supplies.

Preliminary Expenses

The experience of a number of wholesale food markets has shown that market sponsors must have available a sizable fund or equity for financing preliminary studies, optioning land, paying fees for engineering, legal, and accounting advice, and paying for promotional and organization expenses before construction can be initiated. In some markets these expenses have amounted to as much as 20 percent of total construction costs; they have often been 10 percent of construction costs.

In a private corporation or farmers' cooperative most, if not all, of the expenses for promotion and organization should be furnished by the market sponsors out of their own funds

or equity capital. State, county, and municipal appropriations may be sought to defray these expenses in market facilities to be owned directly by the public. 7/

The expenses for promotion of a new facility may amount to a sizable sum, mostly because of the costs of various investigations. These expenses either should be recovered by the sponsors when the new market begins operation or capitalized as part of the original investment.

Closely allied with promotional expenses are organization expenses. They also represent an initial capital investment. The costs of initial financing, including lawyer's fees, also may be included in the estimate of long-term capital requirements. It costs money to raise money. Commissions are paid frequently, in order to make connections with investors who are willing to supply funds for a new venture. Underwriting and other commissions may be necessary if the securities of the market are distributed through investment bankers.

If a new market facility is to be constructed at a new location, market sponsors have sometimes obtained options for from 3 to 6 months on all or most of the proposed new market sites. This procedure gives time for the market sponsors to consider carefully all the advantages and limitations of the possible sites and to forestall any speculation which might substantially increase the costs of land. Of course, when the final decision is made and the market site acquired, some losses are incurred on the options released. However, it has been found that forestalling speculative increases in the costs of the property to be used for the market more than offset any losses on options that are allowed to expire.

Land Costs

Land costs for market purposes fall into two categories: (1) The cost of acquiring a clear title or deed to land so that space is available for a market and the land can be offered as collateral on a loan and (2) the cost of putting the land into condition for building. As a rule the cost of land, put into condition to build, should not exceed one-third of the total initial cost of the facility (land, streets, and buildings). A much lower percentage is highly desirable. However, this limitation on land costs does not mean that market sponsors should restrict the acreage purchased to the extent that no land will be available for future expansion. Usually, it means that market sponsors must buy land farther from the downtown area of cities in order to obtain the desired acreage within this limitation.

In this connection it should be pointed out that the costs of putting land into condition to build sometimes are higher away from downtown areas because of lack of storm and sanitary sewer connections and the costs of bringing in these and other utilities. However, first costs of land at any specific location must be added to the cost of putting the site into condition to build to determine its total costs. Total comparative costs of different sites should be considered on the basis of convenience to various groups before a final decision is made.

7/ For example, a produce market loan fund has been set up in Virginia to provide up to $300,000 equity capital, repayable in 23 years, for helping to pay the costs of wholesale produce markets within the Commonwealth. No interest charge is made until the loan has been in effect for 3 years, and then 3 percent interest is charged.

The costs of preparing the land for building usually include necessary grade and fill, installation of storm and sanitary sewer lines, and installation of gas and water mains. Also related are the costs of bringing in railroad spurs and electric power and telephone lines. In some cases these costs may be borne by the utility companies. However, in arranging for financing, agreements should be obtained in advance of the submittal of loan applications.

Construction Costs

One of the first questions that arise on a project for a new market is: What kind of facilities should be financed by the market owners, and what kinds should be financed by the individuals who will operate on the market? As a rule market sponsors should finance the construction of: (1) All market buildings or structures which will be sufficiently flexible in their basic designs that they can be leased to, and suitable for, any of the individual dealers, farmers, or truckers comprising a homogeneous group that will operate in the market. These would include (a) store units for food wholesalers (fig. 11 and 12). These facilities may include those buildings for handling fruits and vegetables, meats and meat products, butter and cheese, fish, poultry and eggs, and frozen food items so that the market may become a complete wholesale food center. These buildings should be designed so that the units can be expanded to take care of individual dealer's needs and can be rented for other uses if the space is not needed for produce stores, and (b) sales sheds for farmers and truckers. (2) Buildings needed to conduct the market's own business operations and to provide space for concessions. These facilities would include administrative offices, offices for government inspectors and market news reporters, restaurants, barber shop, service station and garage, toilets, and truckers' overnight accommodations; and (3) auxiliary facilities, including streets, parking areas, streetlights, railroad tracks, fences, and maintenance equipment.

Normally, market sponsors should not finance: (1) Structures especially designed for specific operations of any individual dealer unless they have a long-term lease with a responsible tenant. Although chainstore warehouses, packing sheds, processing plants, public refrigerated warehouses, frozen food plants, food prepackaging plants and fruit auctions have been built on some markets, in most cases they have been built by private operators on land which is leased from the market on a long-term lease. (2) Special equipment and facilities for individual dealers, such as refrigeration and handling equipment, cooler and ripening rooms, and equipment for sorting, sizing, and packing products; and (3) facilities for allied industries that may wish to lease land on the market. Obviously they should not hesitate to finance especially designed facilities if leases can be obtained from responsible tenants for a period of sufficient time to amortize completely the original cost and pay for the maintenance of these buildings. However, market sponsors may have difficulty in obtaining adequate financing for the facilities they are obligated to build without assuming this added burden.

Facility construction costs will vary by size, type, and location of the proposed market. Estimates of the costs of building produce market facilities during 1952 recently have been published by the U. S. Department of Agriculture (33). This publication reported that costs of constructing wholesale produce store units, 22½ by 60 feet, inside dimensions, with a 24-foot front platform and 12-foot rear platform, built in multiple-store buildings

A. NEG. BN-3243

B. NEG. BN-3242

Figure 11.--Types of construction of new wholesale produce store buildings: (A) State Farmers Market, Columbia, S. C., (B) Wholesale Produce Market, Inc., Indianapolis, Ind.

A.

NEG. PMA-17278

B.

NEG. PMA-17265

C.

NEG. PMA-17264

Figure 12.--Wholesale produce store units, Jackson, Miss., 1948: (A) Front platform, (B) end view, and (C) end view of railroad platform.

of reinforced steel and concrete or brick and concrete construction, ranged from $10,300 to $12,600 per unit; farmer-truckers' sales stalls cost from $500 to $1,750 per stall, depending on their size and type of construction; paving was $1 to $1.18 per square yard; and railroad track construction was about $8 per linear foot. Since that publication was issued, most of these costs have increased.

Working Capital

When funds are obtained for the financing of a market, arrangements should be made for the working capital that will be needed until the market is operating fully and receipts from rentals and other services are available. It will be necessary to meet payrolls, carry trade credit, and pay for other items such as maintenance costs, insurance premiums, taxes, telephone and telegraph, advertising, sanitation, policing, and fee collecting, before revenues from market operations are available. A study of market operating expenses shows that the composite operating expenses for 1 year (1952) ranged from $84,000 to $129,000 for a large wholesale terminal market; $47,000 to $82,000 for a terminal-assembly market; and $17,000 to $31,000 for a large farmers' assembly market (33). Working capital needed for the first year probably will vary within these ranges, depending on present local conditions.

Determining When Funds Will be Needed

A financial plan should be prepared which will include consideration not only of the types of financial instruments to be used but the dates when the various types of financing will be needed.

Preliminary organization and promotion funds will be needed immediately if a decision is made by the market sponsors to set up a new market organization. Construction loans and funds for supplying working and operating capital will be needed as plans for the construction of the facility progresses. Construction loans, usually arranged with a local bank, are ordinarily refinanced by long-term bonds or notes by the time the market construction is completed.

Determining How Long the Capital Will Be Needed

Depending on the uses made of the borrowed capital, the length of time it will be needed may vary from several years for financing preliminary working requirements, to as much as 25 to 30 years for the amortization of land and building costs.

The period over which the investment in land and facilities should be amortized is determined by a number of factors. Observations on several markets indicate that these facilities, if properly designed and operated, should not become fully depreciated or obsolete in less than 20 to 30 years. Most market facilities are used for a much longer period. However, certain standards have been adopted by most groups making loans for capital improvements of this type, and the time period selected may depend upon their decision. Usually, loan agencies have such loans repaid over a 20- to 30-year period, either in equal annual installments or with a fairly large sum due at the end of the period. (See the Appendix for various interest rates and periods of from 1 to 40 years and the annual payment necessary to amortize a $1,000 investment.)

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Obviously, the value of land does not depreciate like the value of buildings and equipment. If land values were the same, or more, at the end of 25 years, and if the market were abandoned or moved, the purchase price of the land could be recovered. The experience of market organizations in many cities indicates that the development of good wholesale food markets usually increases the value of the land and adjoining property over a period of years. Therefore, the investment in land can be amortized over a longer period, interest may be paid only on the investment in land, or arrangements may be made to lease the land on a much longer term.

Determining How Much Capital Will Be Needed

Estimates of the amount of capital funds that will be needed depend on many factors, including size, type, and location of market facility; availability of preliminary funds; equity in land; and other investments. For example, the capital raised by the 7 selected wholesale produce market organizations in recent years, as given in the final chapter of this study, all of which were located in metropolitan areas of at least 150,000 population, ranged from $230,000 to $3 million. (See page 60.)

In a study of a number of recently constructed wholesale produce market facilities, sponsors found that long-term credit was available for only 60 to 70 percent of the total cost of a market facility. Therefore, it was necessary that the remaining 30 to 40 percent be raised from other sources by the market sponsors. In a number of instances, market sponsors arranged for a stock issue. The shares were sold, for the most part, only to interested market patrons.

Neither privately owned market organizations nor public benefit corporations should expect to sell securities or otherwise borrow funds for 100 percent of the cost of the facility if the loan would be secured only by a lien on the market property and by market revenues. Investment firms and other lending agencies have a right to expect sponsoring groups to provide a substantial equity. Moreover, the larger the equity provided by the sponsoring group, the more favorable the terms on which funds can be borrowed.

Determining How the Capital Shall Be Repaid

Regardless of the type of ownership of a wholesale food market, it is generally conceded that the market should be a sound business undertaking. Therefore, its earnings should be sufficient to purchase land; amortize investment in the facilities; take care of necessary operating expenses; establish adequate reserves; and, for privately owned markets, give the persons who finance the project a reasonable return on their investment. To accomplish this in a fair and equitable manner, the management must make every effort to see that each person using the facilities pays as nearly as possible his proportionate share of these costs.

It is imperative for the management to keep facilities occupied as nearly 100 percent as possible. In several markets, the sponsors have made their financial plans so that capital repayments are based on less than 100 percent occupancy, thus giving some leeway in repayment of obligations if occupancy of facilities dropped below 100 percent for an extended period of time. Market sponsors should try to get all segments of the food wholesale industry

located on the market. Overhead costs can be reduced by having a complete market, and at the same time such a market can render better service to all market patrons.

SOURCES OF LOAN CAPITAL

Financing a wholesale produce market facility usually requires two kinds of long-term capital--equity capital and loan capital. Equity capital is derived from funds invested in the business by the owners or stockholders. In some cases no interest is paid on this type of capital. Usually there are no legal requirements that the investors of equity capital be repaid.

Loan capital is derived from funds advanced to the business by individuals or organizations having money to lend for such purposes. Funds obtained from such sources require payment of interest for the use of the money, and the borrowed funds must be repaid in accordance with the loan agreement.

To obtain long-term capital for a new market facility, the sponsors may have to seek out many kinds of investors. Some of these persons may be willing to forego the possibility of large returns or an opportunity to participate in management. If market sponsors are to obtain the support of this type of investor, bonds usually must be offered. At the other extreme are the investors who are willing to take a chance in order to obtain large profits. In most instances, these investors are interested in buying common stock.

Classification of Investors 8/

Generally speaking, buyers of securities are classified as follows:

1. Investing institutions

   a. Savings banks
   b. Commercial banks
   c. Trust companies
   d. Investment trusts

2. Institutional investors

   a. Life insurance companies
   b. Fire and casualty insurance companies
   c. Other institutional investors, including charitable trusts, colleges and universities, churches, and labor unions

3. Individuals

   a. Investors
   b. Speculators

8/ The material contained in part of this section has been adapted from 1951 *Financial Organization and Management of Business* (25).

4. Business corporations

5. Public agencies

   a. State and municipal governments
   b. Federal agencies
      (1) Federal Reserve Banks
      (2) Banks for Cooperatives
      (3) Small Business Administration

Investing Institutions

Investing institutions may be defined as those which invest other peoples' money--principally savings banks, commercial banks, trust companies, and investment trusts (25). They may have operating restrictions, however, which would hinder their use as a source of funds for building a market. Some of these are pointed out below.

Savings Banks

Mutual savings banks are limited by State laws in their purchases of investments. These laws, which vary from State to State, enumerate the kinds of securities that may be purchased and indicate the categories of securities that may be bought. The list of *legal investments* or the *legal list* includes first mortgages on real estate, government obligations, and State and municipal obligations, railroad and public utility bond issues that have met certain requirements as to earnings, stocks of trust companies, and a few other special kinds of securities.

Commercial Banks

The place of the commercial bank in the investment field is complicated by the bank's function of providing the country's money supply and by the rigid control of its investment activities by State and Federal banking laws and regulations. Generally, these regulations permit the unrestricted investment of funds in government obligations. They prohibit the use of funds for investment in stocks, with certain narrow exceptions. They limit the amount that can be invested in other securities--a national bank cannot invest more than 10 percent of its capital and surplus in the securities of any one obligor. They must not purchase securities which are predominantly speculative. Funds obtained from commercial banks generally are used only for short-term financing. In financing a marketing facility they might be used for construction loans.

Trust Companies

The investment of funds held by trust companies as trustees under personal trusts is governed by State laws, either under the *legal list* procedure or under what is known as the *prudent man* rule. Under the *prudent man* rule, a trust company may become responsible for any losses, if the courts decide that it did not act as a *prudent man*.

Investment Trusts

An investment trust, also called an investment company, is a corporation or business trust organized for the purpose of investing funds obtained through the sale of its own securities. The funds are invested in stocks, bonds, or other obligations of other business enterprises, and, in some cases, in other types of property. Investment trusts are not regulated to the same extent as savings banks, commercial banks, and trust companies, but they are subject to the *Investment Company Act of 1940,* a Federal law administered by the Securities and Exchange Commission. The Commission lays down broad rules governing the disclosure of facts about registered investment companies and governs many phases of the investment companies' operations.

Investment trusts originated in England and Scotland in the 1870's. In 1920, only 40 such corporations existed in this country, but by 1940, when the Investment Act was passed, about 400 investment trusts were in operation.

Investment trusts may not be restricted in the investments they make, or they may be established as trusts dealing in special situations. The investment company obligates itself to redeem or repurchase shares, when offered, at approximately actual liquidation or net asset value. Therefore, the company frequently must offer new shares at prices bearing a fixed relation to liquidating value.

Institutional Investors

Organizations which are formed primarily for purposes other than the investment of funds, but which have money available from premium income and other sources that must be invested to bring in a fair return, are known as institutional investors. They are an important part of the market for investment securities.

Life Insurance Companies

Each contract sold to a policy holder by a life insurance company has an investment element as well as an insurance element. The sum total of reserves of all life insurance policies issued by these companies constitutes a source of funds available to commerce, or industry, and to individuals for financing worthwhile capital needs.

The investments of life insurance companies are regulated by laws of the State in which the companies are organized and, to some extent, by the States in which they operate. The laws, however, give a considerable degree of latitude to the investment officers of these companies. Usually they can buy real estate mortgages if the mortgages are not more than a certain percentage of the value of the real estate. They can buy, without limit, U. S. Government bonds. They can own, within limitations, municipal or corporate securities. They can invest in securities of domestic corporations, including secured and unsecured railroad, public utility, and industrial bonds, and in certain preferred stocks. In some States they may even own a limited amount of high-grade common stock.

Fire and Casualty Insurance Companies

This type of corporation also sells insurance and has large reserves, which are usually available for use in the investment market. They are an important type of investor.

Other Institutional Investors

Churches, universities, colleges, hospitals, charitable foundations, philanthropic organizations, labor unions, and similar institutions or organizations that have sizable funds or endowments are another type of institutional investor. Although some of these institutions may be restricted in their choice of investments by the donors of some of their funds, they usually have more freedom in acquiring securities than life insurance companies and such other organizations that invest and manage other people's money. They usually maintain an investment staff or retain investment counsel to guide them in purchasing securities. In general, they are likely to invest in the same type of securities as persons dependent on investment income. According to recently published data of major underwriters for several bond and stock houses, approximately 54 percent of university endowment funds in this country now are invested in common stocks, 30 percent in bonds, 6 percent in preferred stocks, and the balance in real estate mortgages and other investments. 9/

Individual Investors

Individuals, who invest their own funds, are not restricted in the purchase of securities by any rules except those of good sense. Many of these individuals are persons who are dependent on investment income for a livelihood, as opposed to others who are professional traders and speculators.

Investors

Individuals who are dependent on the income from securities usually have several objectives in their investment program: (1) Conservation of capital, (2) income, and (3) appreciation. Investors of this type assume a minimum risk, and, in return, usually are willing to sacrifice control in an organization or a high rate of income, or both. Bonds protected by a real estate mortgage are classified as securities of this type; preferred stocks of well-established corporations with excellent dividend records are in a second group of investments included in this classification. Even common stocks of corporations may be included as securities of this type if the corporations supply an article or service for which there is a constant demand or engage in an industry of thoroughly understood and standardized processes, offer a low financial risk, hold an established record of dividend payments, present an excellent financial history, and are undisturbed by poor management or manipulation by controlling interests.

9/ The study was prepared by Vance Sanders & Co. in June 1956 for the Boston Fund.

Speculators

Individuals who can afford to accept temporary or total losses, if their judgment proves wrong, usually look for securities that hold promise of relatively large investment profit. They look for common or preferred stocks and bonds of companies whose present positions offer opportunity for substantial improvement. They are interested in securities of newly organized companies with good prospects and in stocks of speculative ventures.

Business Corporations

There are several types of business corporations that may have funds available for investment in market facility construction.

Railroad Corporations

Most of the large wholesale produce terminal market facilities built in the late 1920's were financed by railroad companies which felt that the facilities would increase the tonnage of produce handled by their lines. Railroads usually have sponsored market facilities in one of several ways: (1) The railroad company constructs, owns, and operates the market outright; (2) two or more railroad companies servicing the same city form a market corporation to build and operate a market (these railroads retain ownership of the stock, and the market board is made up of officials of the various lines that own the stock); and (3) the railroad company constructs the market and then sells it to a number of wholesalers or to a corporation made up of produce firms operating on the market. In some instances, railroad owners have restricted the use of these markets, and only limited amounts of produce received by motortruck can be handled.

Venture-Capital Corporations

In the late 1940's a new type of organization known as a *venture-capital corporation* was created by a small group of wealthy individuals with the express purpose of *channeling equity capital into risk enterprise*. Several such companies were established. Business propositions that need financing are channeled into these venture-capital firms, where they are carefully screened, and, if they appear promising, the venture-capital firm backs the new enterprise. A number of firms manufacturing and handling food and agricultural products have been started and are quite successful as a result of backing from these firms.

State Development Corporations

Business interests in several States have developed credit corporations to help relieve venture-capital shortages in their respective areas. Such organizations confine their operations largely to lending, although they are authorized to buy capital stock. They supply funds in an area between short-term bank lending and equity capital financing. (See *A Handbook for Small Business--Financing* (42) for discussion.)

Industrial Foundations

In smaller population centers market sponsors in need of financial assistance or advice may find the services of industrial foundations helpful. Many such foundations have been established in various parts of the country to perform functions related to the development and expansion of community business activities. They are usually identified with local boards of trade or chambers of commerce. (See *A Handbook for Small Business--Financing* (42) for discussion.)

Public Agencies

Several market organizations have secured funds from a public agency. Some of the markets that were built in the 1930's obtained financial assistance from the Federal Government as public works projects.

State, County, and Municipal Governments

States, by direct appropriation or grant of State funds, have financed a number of markets. Usually these States have paid part of the cost, and the remainder has been financed through the issuance of revenue bonds which have been purchased by private companies. These bonds may or may not have the full faith and credit of the State behind them. Also, several municipalities have financed market facilities, which they own and operate directly. In many instances, State or municipal agencies have stepped in to supply credit or build facilities which, for various reasons, could not readily be financed by private means.

Federal Agencies

Several Federal agencies which have been more or less important factors in the financing of a number of agricultural enterprises are:

Federal Reserve Banks.--The Federal Reserve Act was amended in 1934 to permit the Federal Reserve banks to grant credit to various businesses for working capital for periods not exceeding 5 years. As far as can be determined, little, if any, funds have been obtained from this source to finance wholesale produce markets. The Federal Reserve usually furnishes funds to its member banks, who deal directly with the market sponsors.

Banks for Cooperatives.--These institutions were organized in 1933 to finance farmers' cooperatives and businesses servicing agricultural needs.

The system, composed of the Central Bank for Cooperatives and the 12 district banks for cooperatives, operates under the supervision of the Governor of the Farm Credit Administration.

Loans to eligible farmers' cooperatives may be made by the district bank which serves the area in which the headquarters office of the association is located. The principal functions of the Central Bank are to participate in the larger loans made by the district banks and to make loans to them.

In accordance with the provisions of the Farm Credit Act of 1955, borrowers from a bank for cooperatives are required to purchase class C capital stock of the bank in an amount related to their interest payments. The annual net savings of each bank, after provision for necessary reserves, Federal franchise tax, and dividends, are distributed among its borrowers as a patronage refund in the form of the bank's class C stock.

Commodity loans are for short terms. They are made on the security of staple commodities usually over the normal marketing season. Each commodity loan is secured by a first lien on eligible staple farm products or supplies. The commodities must be of sufficient value, at the time the loan is made, to afford an adequate margin of security without the necessity for additional collateral of other kinds.

To be eligible for a loan, the cooperative must be an association in which farmers act together in (1) processing, preparing for market, handling, purchasing, grading, or marketing farm products; (2) purchasing, testing, grading, or processing farm supplies; or (3) furnishing farm business services. Farmers' cooperative associations performing a combination of these services are also eligible.

A cooperative must meet the requirements of the Capper-Volstead Act (see page 30) before it can receive a loan from a bank for cooperatives. A further requirement is that at least 90 percent of the voting rights of a cooperative must be held either by farmer-members or by associations owned and controlled by farmers.

Operating capital loans are generally made to farmers' cooperatives for relatively short periods of time. Although the law does not require specific collateral for such loans, liens on real estate, equipment, and inventories generally are taken.

Banks for Cooperatives also make facility loans to farmers' cooperatives. These loans are made for the purpose of financing or refinancing the purchase of land, buildings, and fixed equipment used in carrying on the business of the cooperative association. Security on these loans generally consists of a first mortgage on the property itself with such additional collateral as may be required. No such loan may exceed 60 percent of the appraised value of the security offered. Facility loans have the longest duration of any of the loans made by the Banks for Cooperatives. These loans are limited by law to a term of 20 years, but they are generally made to mature within a 10-year period and are usually repaid on an installment basis.

Interest rates are determined as provided by law and differ, depending upon the type of loan. Facility loans carry the highest rate of any of the classes of loans granted to farmers' cooperatives.

Small Business Administration.--This agency of the Federal Government is authorized to make loans to small manufacturing, wholesaling, retailing, and service concerns (46). Under a 1955 amendment to the Small Business Act of 1953, which created the agency, the Small Business Administration also is authorized to make loans to corporations formed and capitalized by groups of small firms for the purpose of producing or securing raw materials or supplies. These are so-called *pool* loans.

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Small Business Administration loans are of two types: Loans made in participation with banks and other private lending institutions, and direct loans, that is, loans made by the agency alone. By law, the agency can make loans to small firms only when private financing is not otherwise available to them on reasonable terms. Further, it cannot make a direct loan if a bank or other private lending institution will participate with it in a loan to the applicant.

By law, the maximum loan which the agency can have committed or outstanding to any one borrower is $250,000. The limitation applies both to the agency's share in a participation loan and to a direct agency loan.

The maximum maturity of a Small Business Administration business loan is 10 years, except that pool loans may be for 20 years; loans made for construction of facilities may have a maturity of 10 years plus such additional time as is needed for construction.

The interest rates on Small Business Administration participation loans are determined by the participating institution, but may not exceed 6 percent per annum. The interest rate on the agency's direct business loans is 6 percent per annum, except that pool loans are 5 percent interest per annum.

Both by statute and under the general loan policy established by the agency's loan policy board, participation by banks and other private lending institutions in loans is encouraged. Obviously, the loan funds available to the agency can be used to assist many more individual firms if private lenders share in the loans.

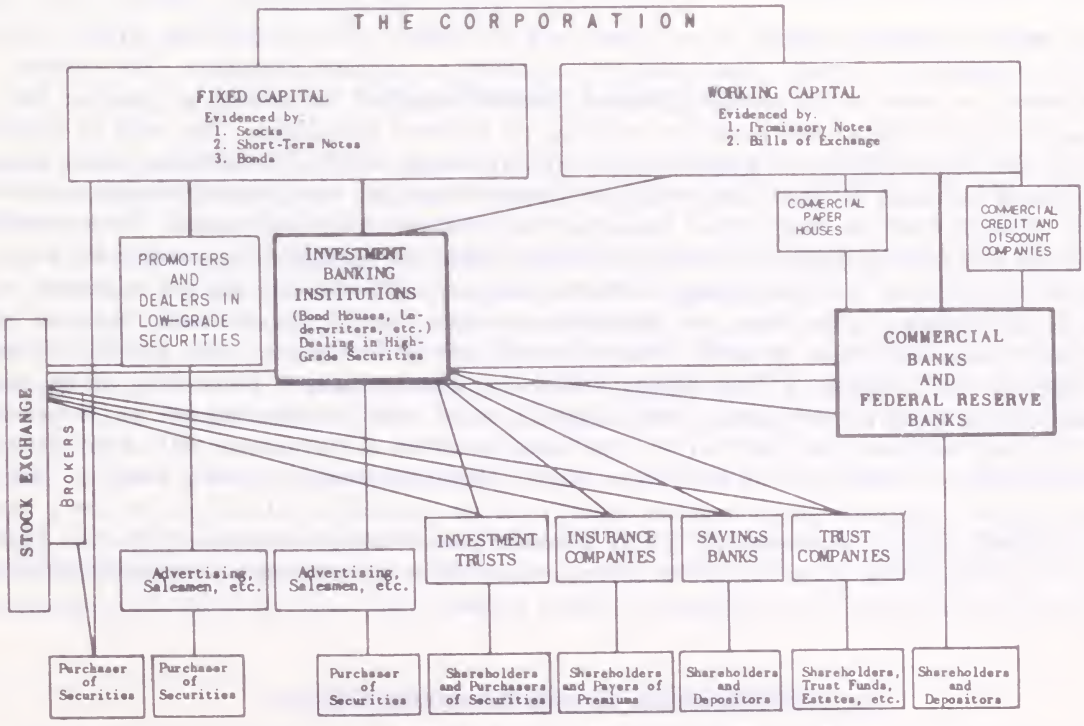
Ordinarily, the small firm owner in need of financing should first see his banker. If for some reason the bank cannot make the entire loan, it may be willing to join with the Small Business Administration in a participation loan to the firm. If the bank will make the loan under these conditions, the businessman may then apply to the agency for a participation loan. If the private lender will not make a loan to the small firm, even with Small Business Administration participation, the firm may then apply to the agency for a direct Government loan.

All applications for business loans are filed with the agency's field offices, which are located in 40 principal business centers in the United States, Puerto Rico, Alaska, and Hawaii.

Financial specialists are on hand in the field offices to counsel and advise applicants on financial problems. Services performed by these specialists include examination of financial conditions and recommendations as to reorganization, examination of working capital requirements, study of expansion needs, and arrangements for conferences with bankers, creditors, and others in endeavoring to work out solutions to financial problems.

HOW SECURITIES CAN BE SOLD

As previously shown, various classes of investors may be interested in financing a new market facility. The largest group of security buyers is comprised of individual investors. This group is variously estimated to include between 10 and 20 million individuals. Although relatively small in total number of investors, large amounts of money also are usually available from the institutional investors. The question facing most market sponsors is: How should securities of a market facility be offered so that interested investors will buy these securities? (Figure 13.)



Source: The Financial Organization of Society, Moulton, Harold G., University of Chicago, p. 158.

U. S. Department of Agriculture NEG. 3613-56 (10) Agricultural Marketing Service

Figure 13.--Channels of distribution of corporation's fixed and working capital.

Direct Sale of Securities by the Market Sponsors

Some wholesale market organizations will find it advisable to sell their own securities directly to investors. This method of financing may be particularly advantageous if the organization has an excellent record of financing previous expenditures and is rebuilding or improving existing facilities, or if the financial requirements are relatively small. Large reputable investment houses usually will not accept issues of less than $1 million because of relatively high costs involved in financing small issues.

In advance of the direct sale of stocks or bonds, a prospectus should be prepared, preferably with the counsel of a competent attorney, and distributed to all prospective investors. It is suggested that the following items be included in the prospectus: Name of company; its capitalization; the name of the issue under consideration; amount and purpose of the issue; nature of lien against property, if any; the price of the issue; capitalization rate; and term of payment. In addition, the prospectus should include such other items as a sketch of the market's history, the past record of sales and volume of produce handled, and a comparative financial statement.

If the market sponsors decide to *originate* and distribute their securities direct, they will need to estimate the returns that will be necessary to attract investors. The returns can be estimated as soon as the market sponsors have determined the amount of capital that must be raised and estimated the possible earnings of the new facilities. The rate of return necessary to attract investors is known as the *capitalization rate* of securities to be issued. It should always be equal to that return on the invested capital which would adequately compensate the investor for the use of his funds and the risk which he undertakes. To determine the capitalization rate is one of the more difficult steps facing market sponsors. No set rules can be established, for they change with the desires of investors and the economic situation in the country at the time the investment is made. As a rule of thumb, however, the sponsors should note the price at which securities of similar businesses sell and the earnings of these markets. For example, if the common stock of a similar market is selling at an average of 10 times the earnings of the market, the capitalization rate for that market is 10 percent, and this rate may indicate the basis of capitalization which at the moment will best facilitate the marketing of securities of this type. Some allowance should be made, however, for a new market project, for such an enterprise usually cannot capitalize itself at as low a rate as an established concern. Furthermore, it is axiomatic that the greater the risk, the higher must be the capitalization rate. If the securities are to be sold through investment bankers, the capitalization rate will be estimated by these firms.

Sale of Securities Through Investment Bankers

The largest share of security issues of both new and established concerns is offered through investment banking houses. These firms usually act as a middleman and combine an assumption of risk with the distribution of the securities. Separate departments are usually maintained by investment houses to investigate, originate, purchase, and sell securities, and to attend to the numerous details of investment banking operations.

Methods of marketing securities through investment banking houses vary in individual cases. One method is *underwriting* (30). An underwriting agreement or contract is made between the sponsors of an enterprise and the investment banking firm, whereby the bankers

agree to purchase all securities, if they are not sold by the firm, in case of certain contingencies. Usually the originating investment firm will invite other such firms to participate in the underwriting agreement, thus it forms an *underwriting syndicate*. Agreements can also be made by the investment houses and the market sponsors to form a selling group that is willing to make an outright subscription for a specific amount of securities.

Arrangements of this type virtually assure the market sponsors of the complete sale of the securities they have to offer. This method of financing entails much careful work and planning by the sponsors of the market facility to obtain agreement of such an investment banking firm to handle the marketing securities. However, this method is suitable only for large undertakings.

The bankers will offer the sponsors of the market less than the established price for the securities to allow for a margin of gross profit. This gross underwriting spread will vary according to the type of security offered, the condition of the market, and the bargaining ability of the market sponsors. The spread usually varies from 4 to 17 percent for stock issues; for bonds it averages slightly over 2 percent. A part of the spread will be paid to each of the various groups that distribute the issue.

Other Methods of Financing

In some localities it may be possible for market sponsors to acquire all the land that will be needed for a complete wholesale market by either of two methods: (1) The facilities and land needed for the original construction could be financed as a separate unit of operation and investment, the revenue from which would pay for that development; (2) the remaining undeveloped land might be acquired on a contract which necessitates that only interest and taxes be paid for a period of years, with no repayment on principal of loan during those years. In future years, if and when the demand by other dealers or commodity interests for space occurs, this land could be leased or sold outright, and the money received could be used to retire the principal of the loan. If the original purchase price is reasonable, appreciation of land values in a growing demand area will make this type of investment attractive. Land without improvement usually has a relatively low interest and tax rate.

In several instances, separate corporations have been set up by market sponsors to finance and handle the sale of this additional land; many costs, including taxes, have been considerably decreased by this approach.

TYPES OF FINANCIAL INSTRUMENTS

Competent financial advisors, investment bankers, bond and corporation attorneys, and others who may be retained by market sponsors to assist with financial problems can provide detailed information in regard to the various types of financial instruments. However, a brief review of this subject is included herein in an attempt to prevent possible errors or misunderstandings in the selection of the most desirable types of financial instruments to use in a particular situation.

As previously pointed out, owners usually are issued stock certificates stating that they have invested a sum of money in the firm and own a certain number of shares of the

firm's assets. These owners are known as stockholders. The capital they provide is known as equity capital. The money that creditors provide is known as borrowed capital. Creditors usually are issued bonds, which are written promises, under seal, to pay a specified sum of money at a fixed time in the future, with interest at a fixed rate, payable at specified dates. Of course, subsidiary types of instruments, within these two broad classifications, may be used. Every financial plan represents a highly individualized combination of various types of investment, whether it be risk, income, or control.

Table 1 shows the wide variation and combination of types of financial instruments used by 6 selected food market organizations for establishing and constructing their facilities.

Table 1.--Types of financial instruments used by selected markets for establishing and constructing market facilities

Type of financial instrument	Market					
	A	B	C	D	E	F
Capital stock:						
Common	X			X	X	X
Preferred				X		X
Bonds or notes:						
Secured:						
Mortgage (first)	X			X	X	X
Mortgage (second)	X			X	X	-
Collateral trust	X				X	X
Unsecured:						
Debenture					X	
Revenue		X		X		X
Government appropriations:						
State		X	X			
Municipal		X	X			
Other:						
Gifts and donations			X	X		

Early in the organization proceedings, market sponsors will be faced with the question as to which are the best types of securities to issue, and what proportionate amounts of each type of security should be issued. Managers of several financial corporations offer the following rules that can be applied to the choice of types of securities by the sponsors of such an enterprise (3):

1. Bonds should be issued only when the future earnings of a project are expected to be reasonably stable and well above the interest and sinking fund requirements of the bonds.

2. Preferred stock may be issued if the average earnings over a period of time are expected to be well above the preferred dividend requirements.

3. If earnings cannot be predicted with reasonable certainty, only common stock should be issued.

Markets owned by State market authorities or directly by State and municipalities frequently are financed by issuing revenue bonds, with or without the credit of the State or local government behind them.

Preferred stock often is used in financing a new business for it gives a claim to the investor on the earnings, and often upon the assets, ahead of common stockholders; also, the high rate of dividend offered attracts investors who do not care for the risk borne by common stockholders.

Other factors that should be carefully considered in choosing the type of security to be issued to finance a market are: (1) The current *pulse* of the security market; (2) the desire for control on the part of the sponsors; (3) plans for future expansion; and (4) the cost of financing. For example, there are times usually in periods of depression, when the investing public will buy bonds only. In more prosperous times almost any type of common stock may be popular. The overall plan for growth and the desire of sponsors to retain control of the market are particularly important. Certain types of securities may be issued with or without voting privileges. Some types may not be issued in the early stages because of the market sponsors' desire to use these types later to pay for needed market expansion.

Some of the types of financial instruments that may be used to obtain funds for financing a market facility are discussed in the following sections.

Capital Stock

Capital stock represents the stockholders' permanent investment in the corporate business. When a corporate charter is applied for, the maximum amount of capital stock which the incorporators think desirable or necessary must be stated. After the charter is granted, the corporation is authorized to accept subscriptions for and issue its stock up to this stated amount, in accordance with statutory and charter requirements. This stated amount is the authorized capital stock. In a few States statutory minimums, which may range from $1,000 to $10,000 of par value, are prescribed for authorized capital stock, but no States impose maximum limits. Some State statutes require that a specified amount of the authorized capital stock be subscribed and paid in either before articles of incorporation are filed or before the corporation begins business.

Until the various State statutes permitting the issuance of no-par-value stock were enacted, beginning with the New York Statute in 1912, all shares of a particular class of stock had a so-called par value. This *value* was a more or less arbitrary figure fixed by the certificate of incorporation and stated on every stock certificate. The par value fixed the minimum subscription price at which the particular class of stock could be issued and the amount of subscription proceeds to be credited to capital stock, which was the aggregate par value of the shares.

Formerly, only issuance of stock with a $100 par value was legally permissible. However, laws in practically all States now permit corporations to sell stock with a smaller par value--generally some figure in multiples of $5 up to $50.

The sale of stock for less than its par value is prohibited by statutory or constitutional provision in practically all States, but the sale of stock for which the

subscription price is fixed above the par value is permitted. In this case, there is a surplus over the stated amount of capital stock.

To overcome many disadvantages which par-value stock is assumed to have, legislatures in practically all of the States have enacted laws permitting ordinary business concerns to issue stock without par value.

The issue price of stock without par value may be fixed in one of several ways, depending on the provisions of the statutes in the State of issue. The issue price may be prescribed in the certificate of incorporation; it may be determined by the board of directors at such time as the certificate of incorporation authorized them to fix it; or it may be approved by a majority vote of the stockholders.

Advantages of no-par-value stock are: (1) It facilitates financing by enabling the corporation to market the stock at its fair value at the time of selling; (2) it enables a corporation to carry out more readily reorganization and consolidation; (3) when State statutes require specific ratios of common stock to preferred stock, the law may more easily be complied with by issuing stock of no par value at lower rates than the par-value stock would permit; and (4) no-par shares make possible a lower market value and wider distribution of stock. At the time of organization, incorporators can regulate the market value of no-par-value stock by issuing a varying number of shares.

In some respects, however, there may be disadvantages: (1) No-par-value stock may not appeal to as many purchasers as par-value stock and, therefore, its market may not be wide; (2) reorganizations and consolidations may not be quite fair to all stockholders; and (3) accounting difficulties may arise because of the various prices at which the stock may be sold.

Corporations are usually empowered to issue several classes of stock. Each class differs from the others in the rights its owner possesses with respect to (1) managing the corporation affairs, (2) sharing in the profits of the corporation and in the assets upon liquidation, and (3) perhaps having also such special privileges as the right to convert the stock into another type of stock or to redeem it at a certain price. These special privileges may be decided by the stockholders. The rights of the owner are simply a matter of contract as set forth in the charter. It is the various combinations of rights, preferences, and limitations embodied in stocks which account for their almost infinite variety.

Common Stock

Common stock denotes simple ownership in the corporation, carrying with it all the usual rights and responsibilities of stockholders, but no special privileges or preferences. Holders of common stock have the right to: (1) Claim proportionate ownership in undivided assets and to hold certificates stating this ownership in shares, (2) transfer ownership in shares, (3) receive dividends when earned and declared by the board of directors, (4) inspect the corporate books, (5) subscribe to any new issue in proportion to holdings and vote on other questions affecting the organization's property as a whole, (6) protect the organization against the wrongful acts of a majority, (7) restrain ultra vires acts of the corporation, and (8) share in the proceeds of dissolution.

The owner of common stock is the ultimate risk taker. If the corporation succeeds and the profits are used wisely, he benefits. If it does poorly, he must make the first sacrifices. He never knows when, if ever, he will get a dividend. However, unlike the unlimited liability of individual proprietors, there is a limit to the risk that the common stockholder must take. He may lose his entire investment in the securities he holds, but that is usually the total sacrifice he can be forced to take.

Preferred Stock

Owners of preferred stock enjoy certain preferential rights. Generally, the most characteristic preference is that of a prior right to dividend distribution up to a stated percentage per year. Also, they generally have a prior claim to assets in the event of dissolution, although this is not an essential characteristic of preferred stock. The prior claim of preferred stock to dividends may be cumulative or noncumulative. If the right to receive dividends is cumulative, the preferred-share owners are entitled to receive out of the profits of future years the dividends which they did not receive in the previous years. Preferred stocks may be participating or nonparticipating either as to dividends or as to assets--more frequently, however, only as to dividends. A preferred stock which is participating, shares with the common stock any amount of earnings left after the fixed preferential rate is paid. Provisions regarding this participation are made in the charter.

Bonds

Today almost all businesses after they are established borrow a considerable portion of the capital with which they do business. If a loan is desired for a long period of time, they issue bonds, if for a short period, notes are generally used. Borrowed capital places upon the company certain fixed or obligatory charges for interest at stated periods and for payment of the principal.

A bond is a promissory note, the amount promised being the par value of the bond. Any business corporation has the right to borrow money by issuing bonds; this right is implied and does not have to be specifically granted in its charter.

Bonds are issued usually in even amounts, such as $10,000, $1,000, $500, and $100, the more common denomination being $1,000. Corporations may provide for the use of large denominations in multiples of $1,000 and may make the smaller denominations exchangeable for the larger. It is unusual for bonds to be issued in odd amounts, such as $1,500 or $2,500. Corporations do not favor the issuance of denominations smaller than $1,000 because of the expense of providing a greater number of exchanges when the various denominations are interchangeable.

Bonds may be issued in either of two general forms, coupon bonds and registered bonds. Coupon bonds are negotiable to bearer and are, therefore, also called bearer bonds. Coupons are attached to the certificates representing claims for periodic interest on successive dates indicated. The coupons are in the form of promissory notes for the interest due, payable to bearer. Registered bonds are those payable to the person whose name appears on the face of the bonds. The bonds are recorded in the bond register or transfer books kept by the company or its authorized transfer agent or registrar. They are transferable only when notation of the transfer has been made on the bonds themselves and entry has been made on the bond register.

Payment of bonds may be accomplished by (1) making securities callable at the option of the issuer before their maturity; (2) creating a sinking fund; or (3) issuing bonds which mature in several series or installments. When a bond issue is callable, it may be redeemed before maturity in part or in whole; its redemption is at the option of the issuing corporation, unless there is a provision for a sinking fund and a periodic call is compulsory. The advantage to the corporation of the option *call* is that the bond may be redeemed when it suits the firm's convenience. The call is made by lot when only a portion of the issue is redeemed. A sinking fund, as applied to bond retirement, is a periodic appropriation of cash paid to the trustee for the purpose of purchasing or otherwise redeeming the bonds before maturity or retiring them at maturity.

The gradual retirement of debt before the maturity date is advisable: (1) It avoids strain on the cash resources of the corporation when the bond issue becomes due, unless provision is made in advance for meeting the bonds either through a refunding operation or by accumulating cash or other assets readily convertible into cash; and (2) the debt reduction offsets the decrease in property values due to depreciation, obsolescence, depletion, and other causes.

A corporation borrowing for permanent capital needs usually prefers as long a maturity as possible. Generally, the following factors influence the setting of a maturity date: (1) *Money market* conditions when financing is undertaken; (2) the type of security; for example, securities issued which are secured by a general mortgage on all the corporation's property would have a longer maturity than debenture bonds; (3) technical reasons (expiring franchises, contracts, etc., which would affect or limit the maturity to a certain date); and (4) buyers' preference. Generally the longer the maturity, the higher the interest rate paid. The advantages of longer maturity usually must be weighed against the higher cost. Buyers may not wish to go beyond a certain length of time in the maturity of the securities they buy.

Bonds may be classified according to the nature of the pledge by which they are supported, namely, secured bonds and unsecured bonds. Secured bonds are supported by physical property, by intangible property, or by both. Unsecured bonds, which are supported by the general credit of the issuer, may be issued on the basis of unconditional promises to pay interest and principal or on conditional promises to pay, usually on the payment of interest.

Secured Bonds

Mortgage bonds (6).--Whenever a corporation borrows, by an issue of mortgage bonds, it supports its promise to pay interest and principal at specified times by means of a pledge of specific physical property. As it would be cumbersome and impractical to deliver a mortgage on the corporation's property to each bondholder, and as the transfer of such mortgages each time a bond is sold by one bondholder to a new one would impair the marketability of the bonds, a trustee is usually appointed to hold the mortgage for all the bondholders. Therefore, there are three parties to corporate mortgages: The corporation (mortgagor), the bondholders (mortgagee), and the trustee. Because of its continuous life, a trust corporation is usually selected as a trustee.

Mortgage bonds are secured by a mortgage deed of trust. This is a trust indenture containing, in addition to the usual convenants and agreements, a conditional conveyance or pledge of property.

There are usually certain restrictive provisions found in mortgages supporting such bonds: (1) Earnings applicable to payment of interest must equal a certain amount. Frequently, a provision is included to the effect that bonds shall not be authorized for issue if net earnings applicable to the payment of interest for 12 consecutive months out of 15 months preceding are not equal to or greater than twice the amount of bond interest that will be payable when the new issue is made. (2) The issue of bonds is restricted to a certain proportion of the value of the new property, usually not exceeding 60 or 70 percent of the cost or value of permanent improvements or of any new or additional property constructed subsequent to the date of the mortgage. (3) Bonds must bear a definite relationship to stock outstanding. Bonds should not be issued for more than three times the value of outstanding issues of stock. (4) Net quick assets must bear a certain relationship to fixed charges. This is but another way of saying that net quick assets (total of cash, accounts, and notes receivable and inventories, less current liabilities) must be sufficient to pay the fixed charges, including interest on proposed issue of bonds, for a certain number of months (usually 18).

Collateral trust bonds (25).--A corporation may issue bonds secured entirely by a pledge of other securities. These bonds are called collateral trust bonds because they are secured by collateral held by a trustee. Sometimes leaseholds, rents, franchises, and patents are offered as collateral, in addition. The securities are usually transferred under a collateral trust indenture which empowers the trustee to recover the sum due on the bonds.

Equipment trust securities (30, p. 72).--Another type of credit instrument used by corporations to raise capital is known as an *equipment trust security*. It is an obligation secured by a mortgage, lease, or conditional sale contract, usually for certain standard equipment. Many authorities treat the equipment trust security as a device for avoiding certain restrictions of a corporate mortgage, such as the *after-acquired clause*, but the importance of equipment trust securities extends beyond that purpose. While used mainly by railroads in acquiring rolling stock, use of equipment trust securities has been extended to shipping companies, industrials, and other corporations. These securities may also be used for securing certain types of equipment or facilities in wholesale food markets.

There are three general forms of equipment trust securities: (1) There is an obligation on a bond or note secured by a chattel mortgage on the equipment. The company will acquire title to the equipment, convey the title in trust to a trustee, who will certify equipment mortgage bonds or notes secured by the property. The obligation will be that of the purchasing corporation. (2) Another method involves a conditional sales agreement. Under this plan the manufacturer sells on a conditional sale or installment plan, which reserves the legal title to the manufacturer or his trustee until all the payments, with interest, have been made. The manufacturer or the trustee then issues bonds, notes, or certificates. Under this method, the liability is that of the corporation that purchases and operates the equipment and indirectly falls on the equipment to which the company has provisional title. When all obligations have been retired, the trustee delivers full title to the company. (3) The most common method of financing acquisition of equipment is by the *lease plan,* which involves both a trust and a lease (40). The purchaser makes an initial payment on the equipment,

usually 10 to 20 percent of the purchase price. The title of the equipment is then delivered to a trustee. The vendor receives from the trustee certificates which he sells to bankers or other investors. Then the equipment under the trust is leased and delivered to the operating company. The annual rent is sufficient to pay interest on the trust certificates and the principal of the certificate at maturity. The obligation is that of the individual, the trust company, or the association organized for the purpose of holding title and executing the lease. The agreements also contain convenants that the operating company will maintain the equipment in good condition, insure it, pay taxes on it, identify it as property of the trustee by suitable attached sign, and agree, in case of default, to assemble and deliver the equipment at its own expense to a place designated by the trustee.

Unsecured Bonds

Debenture bonds (6, p. 98).--Debenture bonds are a direct obligation of the issuing corporation, but they are secured solely by the general credit of the organization; they are not backed by a specific mortgage, pledge, or assignment of property. Although a corporation which sells debentures does not pledge any property or security, the bond owners may sue the corporation in the event of default, and, if need be, force the sale of its property to obtain satisfaction of its claims. A corporation which uses debenture bonds may seek to attract investors by making its debentures convertible into common stock at the option of the bondholder. Until conversion occurs, the debenture bondholder has whatever benefits he is able to obtain because he is a creditor. He has the right to become a stockholder if, as the result of an increase in the attractiveness of the stock, he should choose to surrender his preferential position as a creditor.

Revenue bonds.--These bonds usually are used to obtain funds with which to build, purchase, or expand public income-producing properties. Many public market authorities use revenue bonds to finance construction of market facilities. The bonds are not the obligation of any group of taxpayers. The funds from which interest and principal are to be met must be obtained solely from the revenues derived from the market. Users of these public projects are expected to provide the means (through *user* charges) by which the indebtedness incurred in their creation will be discharged.

Some revenue bond issues have been backed by a mortgage upon the property of the organization for which the debt was incurred. A broad interpretation of the term *revenue bond* would include not only enterprises which charge each user on the basis of the specific service rendered to him but also obligations which are met solely by collecting taxes from the whole group of users.

Revenue bond issues by public authorities enjoy the same immunity from taxation as do direct and general obligations of governmental agencies.

Some States have specifically exempted obligations incurred in connection with public ownership ventures from the debt limits imposed on municipalities, without freeing the taxpayers from the necessity for making up the deficits incurred by these projects. As a consequence, if a venture proves to be incapable of self-support, it becomes an added burden to the property owners of the community. However, where a debt limit is fixed by State law, using revenue bonds enables communities to incur the necessary additional debt and still not violate the law.

Government Bonds

State bonds.--Most State constitutions strictly limit the purposes for which indebtedness may be incurred. Back of State obligations is the power of the issuing unit to levy taxes upon the persons and property within its boundaries. With but few exceptions, States cannot be sued by individuals and corporations without the States' consent. Because of the clause in the Federal Constitution which prohibits a State from passing legislation impairing the obligation of a contract, a State cannot repudiate or alter the character of a debt validly incurred. This constitutional prohibition may afford a means of enforcing the payment of State indebtedness. A State cannot take property without due process of law, nor can it interfere with the taxing powers of the Federal Government. With these exceptions and with the restrictions imposed by their own constitutions, States are free to borrow and to tax without reservation. State bonds are exempt from Federal taxation; however, a State may tax its own obligations.

Municipal bonds.--Municipal bonds are the obligations of political and territorial subdivisions of a State, such as counties, cities, villages, and other special districts. All the rights and powers which these political subdivisions have are delegated to them by the State. Even when not formally incorporated, as in the case of counties in many States, they may be sued for the recovery of debts or other obligations. The courts have held that bonds which are issued by an unincorporated body which does not have governmental jurisdiction of some sort over a prescribed area are the State's own obligations. When a municipality defaults in the payment of interest or principal of its outstanding bonds, it may be sued by any holder of its defaulted obligations to enforce payment.

Promissory Notes

Promissory notes differ from bonds only in their maturity. While there is no fixed rule, usually a note is an obligation running from 1 to 5 years, while a bond is an obligation maturing in more than 5 years. When publicly offered in large denominations, corporation notes are issued under corporate trust agreements with the same general formalities as long-term bonds. The notes may have the same type of security as bond issues. They may be issued as unsecured obligations, or they may be backed by a mortgage deed of trust. They are frequently secured by collateral which, in many cases, consists of the long-term prior lien obligations of the debtor corporation--either mortgage or collateral trust bonds.

FEDERAL GOVERNMENT REGULATIONS AFFECTING THE ISSUANCE OF SECURITIES

Before 1933, with the exception of common-law remedies and defenses, public regulation of the origin and sale of securities was only by State statutes, known as *blue sky* laws, or by special laws administered by State officials and commissions for regulating insurance companies, banks, and public utilities.

A short summary of the provisions of several Federal laws, with which sponsors of food markets should acquaint themselves, follows.

The Securities Act of 1933

Serious attempts by the Federal Government to regulate sales of securities began with the passage of the Securities Act of 1933. This act makes it illegal for any issuer, unless exempted specifically, to proceed with the distribution of its securities by use of mail or facilities of interstate commerce until the issuer has filed a registration statement and prospectus with the Securities and Exchange Commission. However, filing of the registration statement does not give the right to sell, only to offer for sale. Sale of securities cannot be made until registration statements become effective.

The Securities Exchange Act of 1934

Congress created the Securities and Exchange Commission by the Securities Exchange Act of 1934 and transferred to it responsibility for administering the Securities Act of 1933. Under the Securities Exchange Act of 1934, Congress sought to provide disclosure of information with respect to securities traded on our national securities exchanges, to regulate the solicitation of proxies from the holders thereof, to curb misuse of *inside* information by management officials of such companies, and to regulate trading in the exchange and over-the-counter markets so as to curb manipulation and other malpractices and foster just and equitable principles of trade in those markets. To these responsibilities Congress has added new ones from time to time, including the administration of the Public Utility Holding Company Act, the Trust Indenture Act, and the Investment Company and Investment Advisers Act. It also gave the Commission important powers to advise in cases involving reorganization of various corporations, in accordance with provisions of Chapter X of the Bankruptcy Act.

The registration statement for securities proposed for public distribution must contain information on the general organization of the corporation, the distribution of voting power, a summary of the corporation's history, a description of the proposed business, a full description of all properties, full details on all capital issue being offered, and a statement describing the use of proceeds. Also, the statement requires a description of the relationship between officers of issuers and underwriters and trustees. A statement of the concern's financial condition is also required. Investors have a right of recovery against the issuer and others if they suffer a loss in the purchase of registered securities and can establish that the registration statement or prospectus was inaccurate or incomplete in respect to material facts. Criminal sanctions may be imposed for fraudulent misrepresentation of the facts, either in the registration statement and prospectus or orally.

Congress gave the Commission power to classify registrants and to vary the requirements for registrations on the basis of its classification. Prospective registrants, therefore, should acquaint themselves with respect to the particular registration form that is required to be used in preparing its statement, if they plan to issue any securities. Upon completion, the registration form is signed by the proper officials of the market organization. It, along with a prospectus, is then filed with the Securities and Exchange Commission.

It should be noted that the cost of registration is only part of the overall cost of flotation (distribution) of securities, and a relatively small part. The cost of registration, according to a 1949 study of the Commission (including legal, accounting, and engineering fees, printing, and other expenses, which are attributable only in part to registration), varies from 3.6 percent on common stock issues of less than $500,000 to

0.3 percent for $20 million issues, whereas the overall costs of flotation were 23.72 percent and 8.7 percent, respectively. For debt issues, the costs range from 3.1 percent for issues of less than $500,000 to 0.15 percent for large issues, as against overall costs of 12 and 1 percent, respectively.

Reference should be made to the fact that public offerings of securities not exceeding $300,000 in amount may qualify for exemption from registration pursuant to the Commission's Regulation A. This regulation provides what is sometimes referred to as the *short form* registration, and is designed as a more expeditious, less burdensome, and less expensive method of qualifying securities for public sale.

A waiting period between the filing and effective date of the registration statement is provided by the act. While *offers* of securities can be made during the waiting period, contracts of sale can be entered into only after the statement has become effective. Stop orders may be issued by the Commission at any time, preventing further sale of the securities, if the Commission finds material discrepancies or inaccuracies in the statement or prospectus.

The Trust Indenture Act of 1939

Even though the Securities Act of 1933 was of great value to prospective purchasers of bonds, for it assured them an abundance of information about issuers in whose securities they might be interested, there were many weaknesses in their position. To overcome these weaknesses, the Trust Indenture Act was passed by Congress in 1939. This act applies only to trust indentures under which more than $1 million of securities are outstanding at any one time. It provides that an issuer of bonds is obliged to file with the Securities and Exchange Commission a copy of the trust indenture it proposes to use. The purpose of filing is to *qualify* the indenture and to provide information regarding the eligibility and qualifications of the trustee. There is a waiting period established under the act, before the bonds may be distributed or the sale can be completed. Stop orders may be issued by the Commission at any time and have the same effect of stopping sales as those applied to sales of other securities.

Every trust indenture must assure bondholders that the trustee is a financially responsible institution. There may be 2 or more trustees provided, but 1 must be a corporation, and it must have a capital and surplus of not less than $150,000. The trustees must beware of getting themselves in positions in which their interests conflict with those of the bondholders. The trustee is in conflict if as much as 10 percent of its voting securities are owned by the issuer, if it owns as much as 10 percent of securities of the obligor's underwriter, and if the obligor's underwriter or any 2 or more of its directors or officers own as much as 10 percent of the securities of the trustee. This reference to the qualification of a trustee refers to those persons acting as trustee under more than one secured indenture for the same obligor, control and introductory relationship between the trustee and obligor or an underwriter, and certain percentage ownerships of securities.

No indenture may contain any provision intended to relieve the trustee of responsibility for its own negligent failure to act or its own wilful misconduct. If any default in payments occurs, the trustee is required to notify each bondholder of what has happened within 90 days, and to act as a prudent man in the conduct of his affairs.

Twice each year the obligor must provide the trustee with any information it has about the names of its bondholders; the law also provides that any 3 persons who have owned bonds of the obligor for at least 6 months can request a list of bondholders. The act requires the obligor to provide each bondholder with a copy of an annual report prepared in line with regulations of the Commission. It must also make certain other reports to the trustee, including such engineering reports that are necessary if there is to be a release of property.

The Maloney Act of 1938

The Maloney Act of 1938, which is now embodied in the Securities Exchange Act, authorizes the organization of national securities associations for the purpose of fostering fair practices in over-the-counter securities markets, by self-policing and self-disciplinary measures. The National Association of Securities Dealers, Inc., has been organized under the act and has adopted rules intended to foster higher ethical standards and fair practices by over-the-counter brokers and dealers. These rules relate to various matters, including fair prices and the genuineness of the offers to buy and sell securities.

EXAMPLES OF HOW FUNDS HAVE BEEN RAISED

Although market sponsors have used different methods to raise funds for the acquisition of land, construction of facilities, and other expenses, to a large extent these methods have been directly related to the type of organization involved. To illustrate the methods of financing that have been used by various types of market organizations, a brief description of the financial arrangements made for 7 selected markets is presented. These descriptions show the terms and conditions under which existing markets obtained the needed funds.

Market A

Market A is in a marketing area that has a population of about 300,000. In addition to supplying retail outlets in this area, this market also serves as an assembly point for large quantities of produce for shipment to more distant consuming centers. Both local and out-of-State producing areas depend on this facility as a market outlet. Approximately $20 million worth of produce annually is handled on this market.

The market is on a 50-acre site. Facilities include 61 wholesale produce store units, 30 of which have direct rail connections; 170 stalls for farmers and truckers under sales sheds; container sheds; team tracks; parking areas; and an office building.

The approximate costs of developing the market were as follows: (1) Cost of acquiring and developing land, $65,500; (2) cost of facilities and features such as railroad approaches, sewer and water connections, pavement, floodlights, fence, and public address system, $147,000; and (3)building construction costs, $801,630. The total cost was $1,014,000. Of the total amount, costs assumed by agencies of the State and county amounted to approximately $78,200. These items included an estimate of the costs of legal services provided by the State Attorney in acquiring the land; costs of sewer and water connections furnished by the county; and engineers' and architects' services furnished during construction by the State

Highway Commission. Value of additional investments by tenants in fixed improvements at time of construction, for refrigerated boxes, etc., were estimated to be approximately $300,000.

This market is owned and operated by a State. It was opened in 1951. To finance its cost, approximately $250,000 was appropriated by the State, $50,000 by the county, and $50,000 by the city in which it is located. The State appropriation included the construction cost of the administration building. Approximately $650,000 in revenue bonds were sold on a bid basis to investment houses in eastern cities to finance the remainder.

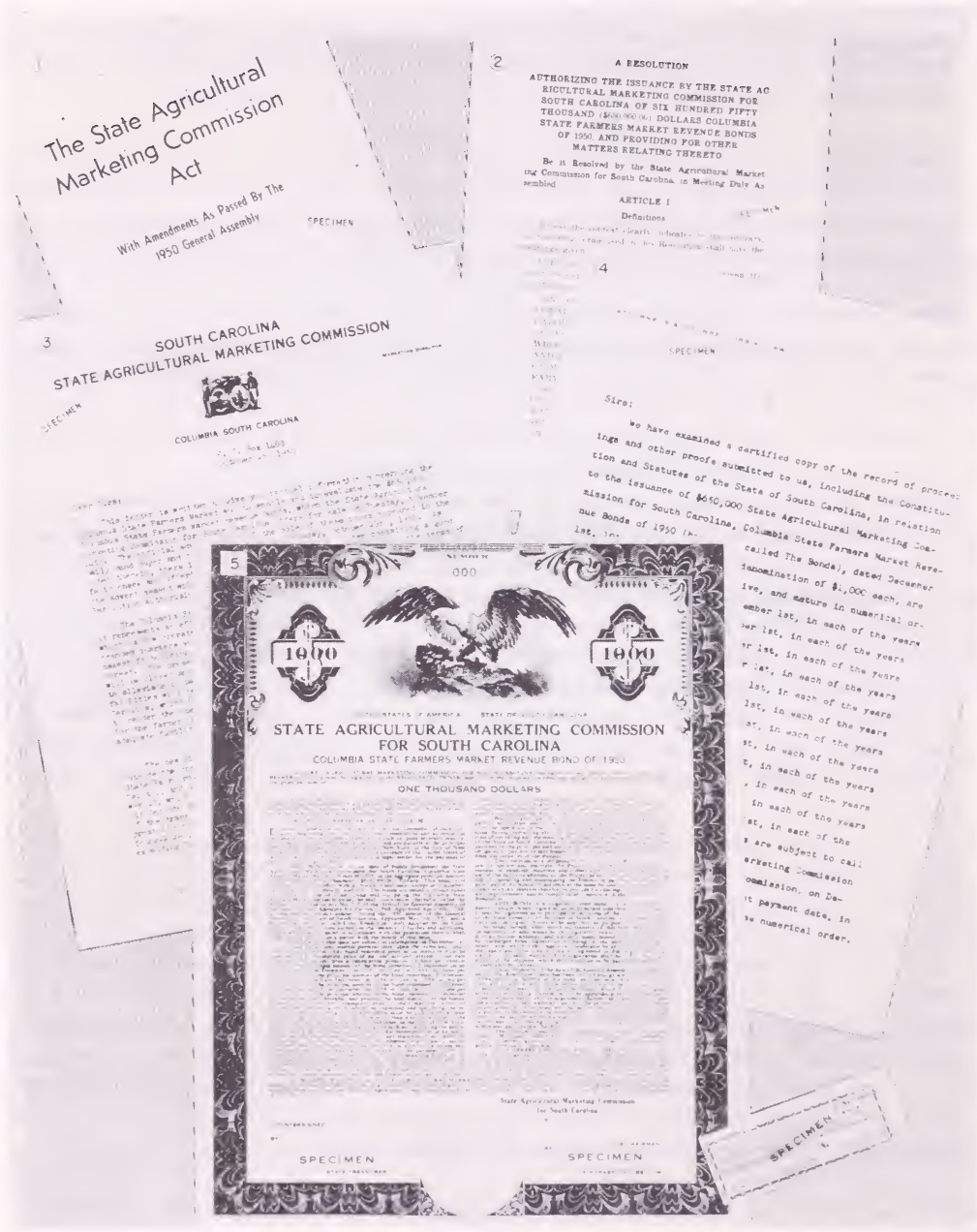
Revenue bonds were of $1,000 denomination; they carried 2.65 to 2.75 percent interest, depending upon maturity date. The faith and credit of the State is not pledged, but bonds are payable and are secured by a pledge of the revenue derived from operation of the market. The bonds mature in numerical order, with approximately $25,000 maturing each year over a period of 25 years. The bonds are subject to call by the State at its option in inverse numerical order. A reserve of $400 per month is set aside from revenues as a cushion for contingencies and as an additional security on the bonds. If on the 50th day preceding interest payment dates there is a surplus in the *Cushion Fund* which exceeds the requirements of the fund by as much as $5,000, additional bonds may be called for payment. If any bond is called for redemption prior to its stated maturity date, the redemption price includes the accrued interest to the date of redemption. A redemption premium is given to bondholders of 2½ to 4 percent of the principal amount of the bond redeemed, depending upon the unredeemed time which the bond has to run before maturity.

The State is obligated to place into effect and maintain a schedule of rentals and rates, for the use of facilities and for other services, which will produce revenues sufficient to provide for: (1) Adequate operation and maintenance of the project; (2) punctual payment of principal and interest of the outstanding bonds and any additional bonds that may be issued; (3) adequate reserves for bond and interest payment, contingencies, improvements, extensions, additions, and enlargements; and (4) for use in replacing depreciated and obsolete facilities. (Figure 14 shows examples of various instruments used in securing funds by sale of revenue bonds.)

Market B

Market B is in a metropolitan area of approximately 2½ million population. Facilities owned and operated by the market corporation include 98 wholesale store units in 4 buildings and approximately 100 farmers' stalls. Other facilities include a team track yard for 350 rail cars, a holding yard for 1,000 rail cars, an auction building, a wholesale grocery establishment, a cold storage warehouse, a fresh vegetable prepackaging establishment, a garage and gas station, and a bank. A frozen food manufacturing plant was built in 1956 by the market organization for lease to a large restaurant chain.

The market was built in 1929 by a private corporation with an initial investment of approximately $3.5 million. The original market land and construction costs were financed by an issue of 3,000 shares of capital stock, which was sold to members of the trade and a holding corporation for approximately $150,000; approximately $350,000 in short-term notes, etc.; and a 25-year revenue bond issue of $3 million. These bonds, which were sold to one of the original joint owners, have been liquidated. Each lessee of the market and store facilities is a stock owner.



NEG. BN-3257

Figure 14.--Five steps used by the South Carolina Agricultural Marketing Commission in issuing revenue bonds for financing cost of land acquisition and building construction of market facilities: (a) Act establishing the State Agricultural Marketing Commission, (b) resolution of State Agricultural Marketing Commission authorizing the issuance of revenue bonds, (c) legal opinion stating proposed bond issue is legal in all respects, (d) prospectus for sale of revenue bonds, and (e) a specimen revenue bond.

Several additional series of indentures, which total $1.5 million, have been issued since the market was organized. These indentures were to finance improvements, including the frozen food plant, and additional land acquisition made since the original bond issue was negotiated. The team track yards, cold storage plant, and auction facilities were built by other concerns at a cost of $3 million.

Recent issues of indentures were bought by local banks. One series of the indentures bears interest at the rate of 4 percent per annum, payable monthly. Monthly installment on this note amounts to $1,200 with provision for additional monthly installments equal to the amount of rentals received from certain leased wholesale store units. The agreement with the bank further provides that, if the owning corporation declares or pays a cash dividend in excess of $6 per share, it will pay the bank an amount determined by multiplying such excess by the number of shares pledged as security for these notes on the date of the payment which created such excess.

The most recent issue of indentures is backed by a first mortgage on the land and improvements of the frozen food plant and bears interest at 5 percent.

Leases on the market facilities stipulate, among other things, the minimum rentals and provide that rentals from the market facilities are to be used to liquidate the cost of constructing the facility.

Costs and expenses of operation of the market are charged directly to the tenants and are in addition to the tenants' basic rental charge.

Market C

Market C is a city that has a metropolitan population of about 500,000. The present facilities include 64 wholesale store units and 72 farmer-trucker stalls. All store units have direct rail connections. Other facilities include a restaurant; a gasoline service station and garage with dormitories on the second floor for truck drivers; and an ice-crushing plant. The market is operated by a dealer-owned private corporation. When it was opened for business in 1954, the facility represented an investment of approximately $1.2 million in land and buildings.

To partly finance the project, the dealer-owned corporation sold 1,500 shares of capital stock at $100 per share to 4 principal underwriters. It also sold 250 shares to small dealers, totaling $25,000. A smaller amount of stock was bought by other dealers. (See figure 15.) Ten-year debenture bonds bearing 4 percent interest per annum were sold to raise an additional $170,000. These bonds, which were backed by 10-year leases on the wholesale produce stores and second mortgages on the property, were taken by private investors who were principally the lessees of the facilities.

Ten-year first mortgage bonds bearing 5 percent interest, endorsed by a holding corporation, were sold to local investment interests to raise approximately $525,000. An additional $160,000 in second mortgage bonds were bought by the holding corporation. Subsidiary bonds approximating $45,000 were also sold to pay for the construction of the garage-service station facility. These bonds were bought by the lessee of this facility. Other notes were negotiated, totaling $100,000.

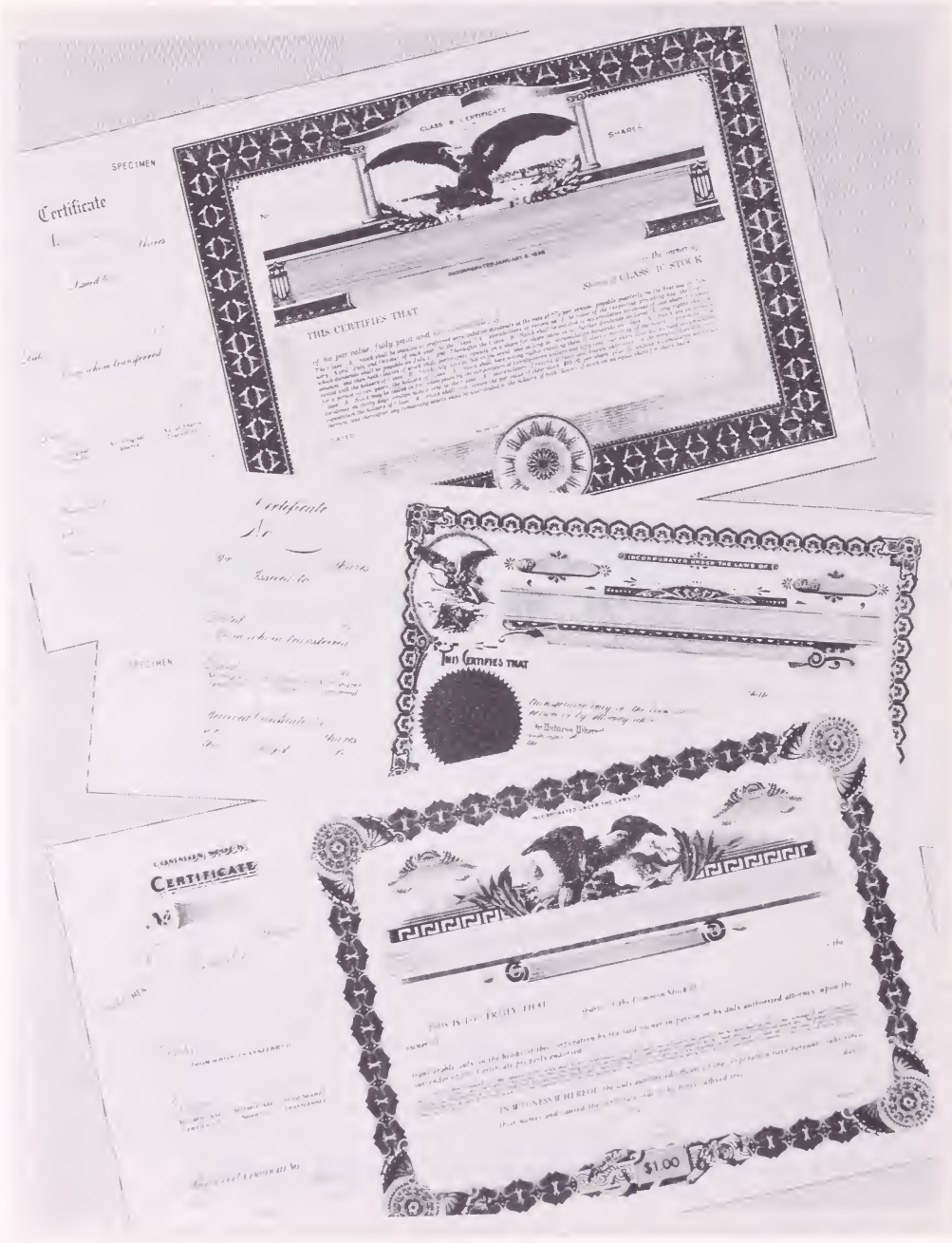


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Figure 15.--Specimen capital stock certificates used by food product distribution corporations.

Market D

Market D is in a metropolitan area of nearly 2 million people. Facilities on the market include 98 wholesale store units in 2 buildings and approximately 50 farmer sales stalls. All stores have direct rail connections with a trunk line railroad. A team track yard for unloading or holding rail shipments is adjacent to the market property. Other facilities include gasoline service station and garage, brokers' offices, and teletype communication center.

The market was built and is operated by a dealer-owned corporation. Cost of land, buildings, and other facilities approximated $2.8 million, when the market opened in 1953.

As one step in financing the project, the market corporation authorized the issuance of 10,000 shares of common stock with a par value of $100 per share. Each store unit lessee on the new market facilities bought 20 shares of stock at the time his lease was signed. In addition, each unit holder agreed to buy the equivalent of 1/2 share of stock ($50) per month for 200 months, and further agreed to continue such purchases of stock until *such time as the indebtedness of the corporation secured by deeds of trust (mortgages) is fully liquidated unless the Board of Directors of the Corporation determines at an earlier date that no further capital is required for the corporate purposes of the company.*

A construction loan of $1.3 million was made by a local bank at 4½ percent interest per annum to run for approximately 2 years. This loan was then liquidated by the sale of $1.3 million worth of 20-year first mortgage bonds, bearing 4½ percent interest. The bonds were bought by a life insurance company. Provision was made for additional payments to the bonds each year above the amortization requirements, depending upon the financial condition of the market corporation. Based on present record of payments, corporation directors expect full payment of the first mortgage loan within 17 or 18 years of issuance date.

A second mortgage loan of $250,000 was made after the market was built to purchase additional land area for expansion. This loan was made to the market corporation by a private holding corporation. This amount was supplemented by a first mortgage note for construction of a gasoline station and garage buildings. The note was for $50,000, to be amortized over a 20-year period, and carried 4 percent interest. In addition, a debenture note amounting to $85,000 has been issued for further development of the market. It is to be amortized over 20 years and draws interest at 5 percent. The estimated value of services and material assumed by the holding corporation and the city was approximately $500,000.

Market E

Market E is in a metropolitan area of about 750,000 people. Facilities include 27 wholesale store units and approximately 225 farmer-trucker stalls. All store units have direct rail connections. Other facilities include a restaurant building and brokers' offices.

The market was built in 1935 by a farmers' cooperative association at a cost of approximately $120,000. Since that time, new facilities have been built costing approximately $280,000. Additional service facilities costing $46,000 were paid for by the railroad serving the market and the city in which it is located.

Three series of capital stock have been issued by the cooperative association. The issue of common stock consisted of 200 shares with an original par value of $100. Each member of the association must own at least 1 share but not more than 2 shares of common stock, which has voting privileges. There are two series of preferred stock, owners of which have no voting privileges. Two hundred shares of preferred stock series were issued with par value of $100. The association admits as members only persons or firms who are *bonafide* growers of fruits, vegetables, or flowers in the county in which the market is located or an adjoining county.

Loans of approximately $100,000 were made at time of building to cover cost of land and construction. Since 1935, the association has also issued *open* debenture notes with 5 percent interest, maturing in 4, 5, or 6 years in the amount of approximately $250,000, for the construction of additional market facilities.

Market F

Market F is in a metropolitan area of approximately 750,000 persons. The present facilities include 84 wholesale store units in 2 buildings, 120 farmers' sales stalls in 2 buildings, 70 buyers' stalls in 2 sheds, and 22 sellers' stalls in 1 building. Stores are served by direct rail connections with a major trunk line railroad. Other facilities include a gasoline service station and garage, offices for brokers and market administration, bank, public scale, and restaurant.

This facility was financed and built by the development unit of a construction firm. The market then was sold to a dealer-owned corporation, which is its present operator. The market was opened for business in 1951. The initial investment in buildings, land, and service facilities was approximately $2.1 million.

The market corporation has issued 4,000 shares of common stock with a par value of $100 per share. No one person or group of persons may own more than 30 percent of the outstanding issue of common stock. There are now about 120 stockholders. The long-term debt is made of a first mortgage note of $1.8 million, to be amortized over a 20-year period with interest at 5 percent. The mortgage was bought by a life insurance company. The note is secured by a mortgage on the land, administration building, and produce facilities. The dealer-corporation also issued a note for approximately $75,000 secured by a first mortgage on the gasoline service station and garage building.

Market G

Market G serves a metropolitan area comprised of approximately 150,000 persons. The facilities include 9 wholesale fresh fruit and vegetable store units, 31 farmers' and truckers' sales stalls in 2 buildings, a poultry processing plant, a vegetable curing house, a restaurant, and a gasoline service station and garage. The market is served by a major railroad. It was built in 1949 and is now operated by a County Marketing Commission established by the State Legislature. Total cost of land, buildings, and service facilities approximated $230,000. The original construction and cost of land was financed by an appropriation by the county supervisors of approximately $100,000, and county obligation notes approximating $96,000, which were sold to 3 local banks. These notes are for 10 years and carry interest at 3 percent. An additional $35,000 was secured by county appropriation and from funds of the State Agricultural Commission.

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A P P E N D I X E S

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
		Alabama	
Article 25, Para. 405, 415. Rev. 1951	State Board of Agriculture and Industries	State Board of Agriculture and Industries	State appropriation of $200,000 from general fund to be repaid without interest. Collections to be deposited monthly in State Treasury to credit of Agricultural Fund.
		Connecticut	
1939--Regional Market--chapter 108a Section 432g. Public Acts 1955 Chapter 142, Title 21 Sect. 1715d to 1728d.	Connecticut Marketing Authority composed of 7 agricultural producers, 2 wholesalers, and 2 consumers of State. Appointed by governor for 6 years.	Connecticut Regional Market Authority	Revenue bonds with maturity date not longer than 25 years subject to approval of governor and commissioner of finance (a) Hartford Bond issue of $1,200,000 also can issue $360,000 construction bonds. (b) New Haven bond issue of $2,000,000 (plus $50,000 appropriation for initial expenses)
		Florida	
1929, 1933, and 1941 Chapt. 13809, 15860, 20345	State Agricultural Marketing Board composed of governor, commissioner of agriculture, State marketing commissioner.	State Agricultural Marketing Board	State appropriation for operating expenses. Additional funds from Special Inspection Fund and local county government.

ENABLING LEGISLATION IN SELECTED STATES

Duties of authorized person or organization

Alabama

(1) Acquire by purchase, donation, lease, or condemnation, a suitable site or sites, accessible to highways, railroad, and air terminal facilities, and to erect and install such structures, facilities, and equipment for inspection, grading, standardization, classification, refrigeration, canning, packing, processing, and marketing of agricultural products including all staple food crops, fruits, vegetables, poultry, dairy products, fish, and kindred products.
(2) Lease space and facilities in such markets for storage of such products pending inspection, grading, packing, canning, processing, etc., and marketing.
(3) Make such charges for such space, services, and facilities to cover reasonable costs of operation and maintenance of such markets, equipment, and facilities, provided such charges shall not be made with a view to producing any revenue or profit to State.

Connecticut

Develop marketing facilities of the State to bring about a wider and more economical distribution of Connecticut's agricultural products through the development of existing farmers' markets and by the establishment, acquisition, development, and operation of market facilities, including land and buildings, and construction.
(2) Lease market or land to agricultural cooperatives, to wholesalers of farm produce or supplies, to dealers in other commodities and to persons rendering services connected therewith essential to the market, subject to such rules and regulations the Authority may promulgate. Such leases may not exceed a period of 99 years, but may be renewed for like periods.
(3) Fix, charge and collect rentals for stores, stalls, space, buildings, equipment, privileges, and services furnished or performed in or in connection with the market.
(4) Promulgate such rules and regulations relating to the use and operation of the market and its premises, equipment and facilities; marketing hours and days; sanitation; weight, measurement, and display of products; inspection of products by the authority; and traffic and parking regulation, all in the interest of public safety and convenience and to insure the most efficient and economical use of the market property. Impose penalties of not exceeding $500 for each violation of any such regulation.

Florida

Give instruction in grading, standardization, packing, processing, loading, refrigeration, routing, and distribution of farm products. Carry on research work in marketing. Purchase suitable sites and erect marketing facilities and lease space. Hire necessary personnel. Operate bonded warehouses.

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
		Georgia	
Georgia Act 1935, p. 369 Farmers Market No. 44	State Commissioner of Agriculture	State Commissioner of Agriculture	All funds collected are deposited with State treasurer in separate fund.
HB No. 176, 1955 (Act is supplemental and additional to powers conferred by other laws)	Ga. Farmers Mkt. Authority composed of gov., lt. gov., comm. of agr. and State auditor	Georgia Farmers Market Authority	$8 million State bond issue
		Louisiana	
Act No. 99, House Bill 235, June 25, 1948	Farm Products Mkt. Facility (a) Terminal Market Facility consisting of 9 members: 2 from 4 wholesalers under PAC Act; 1 from 3 businessmen; 1 from 3 retailers; the chief executive officer of town; comm. of agric.; and chairman of State Mkt. Commission. (b) Assembly Market Facility consisting of 7 members: 4 from 8 farmers; chief executive officer of city or town; comm. of agric.; and chairman State Market Commission.	Terminal Market Facility and Assembly Market Facility Organization	Issue bonds, not longer than 30 years maturity or at more than 6 percent interest, receive appropriations, gifts, charge rents, etc.

ENABLING LEGISLATION IN SELECTED STATES--Continued

Duties of authorized person or organization
Georgia
Commissioner of Agriculture authorized to purchase, lease, rent, receive by gift, or determine necessary market site on which to construct farmers' market. He shall collect reasonable charges to pay costs. Inspect all food items.
(1) To acquire by purchase, lease, gift and to hold, lease, and dispose real and personal properties. (2) To appoint such additional officers as needed. (3) To build, construct, repair, improve, etc., manage and lease market projects and pay the costs of such action. (4) To make regulations for operation of project, etc.
Louisiana
(1) Acquire by purchase, lease, or condemnation such land or other property that is necessary to the operation of the market. (2) Mortgage, sell, lease, rent, or exchange any such property as it may deem advisable on approval of Governor and trustee of the bondholder. (3) Plan, build, construct, and operate such facilities as it may deem necessary for operation of market. (4) Borrow money, issue notes or bonds or other obligations, providing maturity date not longer than 30 years. Bonds, etc., not an obligation of State or any political subdivision. Receive appropriations, gifts, etc. Interest on bonds not to exceed 6 percent per year. (5) Employ market manager and all necessary employees and fix salaries. (6) Charge and collect rentals, etc. Promulgate reasonable rules and regulations and make contracts, etc.

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
		Michigan	
Public Acts 1933 No. 94	Any county, city, incorporated village, port district, or metropolitan district	Lessees of any county, city, incorporated village, port district, a metropolitan district, or assignees.	Issue revenue bonds, payable solely from revenue derived from the operation of such projects--with interest at not more than 6 percent, principal payable as determined but not exceeding 30 years.
Public Acts 1956 No. 185, Sec. 5 2770 (101-109)	Governing body of any city	Municipal Market Authority	Revenue bonds with maturity date not longer than 40 years.
		Mississippi	
Law of 1946 Sect. 7, Chapt. 177 and by House Bill 77	Central Market Board composed of State comm. of agric., plus 4 others: 1 from each of 3 highway districts and 4th from State-at-large	State Central Market Board through State Market Manager	
		New Jersey	
1921, Chapt. 83 (Supplement)	Bureau of Land, Maps and Markets	No restriction	Regular State Dept. of Agric. funds. Rentals of facilities and other market fees.

ENABLING LEGISLATION IN SELECTED STATES--Continued

Duties of authorized person or organization

Michigan

By ordinance to purchase, acquire, or construct: "...a public market and storage facilities..." To improve, enlarge, extend or repair markets. Regulate facilities and hire necessary personnel.

(1) To acquire by purchase, lease, gift, land or other property as may be necessary to the operation of the market, and to hold, mortgage, lease, sell, rent, exchange or otherwise dispose of property provided disposal is approved by governing body of city and trustee of bondholder. (2) To plan construct and operate, such building structure and equipment as may be necessary for operation of the market. (3) To operate that part of the market that deals with nonprocessed food and farm products. (4) To borrow money, issue bonds or other obligation and pledge real or personal property--no obligation incurred by authority shall be debt to the city. (5) Employ market manager; fix salaries; fix and charge rentals; promulgate rules or regulations; suspend any right or privilege of persons violating rules; other duties of a corporation.

Mississippi

State Market Board has power to: (1) Fix salaries of employees of Board; (2) fix rentals and charges for each type of facility; (3) adopt financial building and operating program for a market; (4) make rules and regulations for market operation; (5) provide and enforce penalties; (6) lease buildings and facilities to farmers, wholesale dealers, etc.: (7) set hours of market operation; (8) plan, build, and construct or lease any facilities deemed necessary for operation of market; (9) rent or lease market property.

New Jersey

To collect timely information relative to supply and demand, and prevailing prices and amounts in cold and common storage. To assist and advise in organization and maintenance of public markets. Establish standards and grades for farm products. Collect fees.

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
		New York	
1950 (L2.613 Book 42 pp. 257-286) Article 4, Title 1, 2, 3, 4, Title 1-Albany Reg. Mkt. Auth., Title 2-Central N. Y. Reg. Mkt., Title 3-Lower Hudson Reg. Mkt., Title 4-Genesee Valley Reg. Mkt. Authority	Board of Directors composed of 15 members, including Comm. of Agric. and Markets or his representative, the board of supervisors of each county included in region, shall name 2 members each	Board of Directors of Regional Authority	Legislature appropriates and lends to an Authority up to 50 percent of the cost of constructing approved new facilities or the repair of existing market facilities under their control. The other 50 percent of the cost is financed by the issue of 3 percent, 30-year term revenue bonds. The State loan is without interest and is paid back in annual installments.
Agriculture and Markets Law, Article 22, Sect. 268, 1955 rev.	State Commissioner of Agriculture	Local Director of Markets	State Legislature appropriates to city, town or village up to one-half of the maximum amount certified by the State Commissioner of Agriculture needed for building new market or repair of present market. The remainder of the costs of acquisition of land and construction, repair or improvement of public markets thereon shall be paid by the city, town, or village.

ENABLING LEGISLATION IN SELECTED STATES--Continued

Duties of authorized person or organization
New York
(1) Name managers of markets and fix compensation of each; determine location, type, size, construction, and equipment of requisite regional marketing facilities within the district; prepare plans for financing acquisition, construction, equipment, and operation of such facilities; exercise powers of authority in operating adequate regional marketing facilities within the district for buying and selling farm produce and other businesses that will serve the public in these businesses. (2) Make investigations and hold hearings to formulate, adopt, and revise a financial building and operation program for a regional market within the district. (3) Acquire, lease, erect, construct, equip, maintain market facilities within the district, and to acquire property by agreement or condemnation, to improve and equip the same, and to mortgage, sell, rent, exchange, or sell any property as may seem advisable. (4) Execute contracts, bonds, certificates of indebtedness, and other obligations, and sell the same at such amounts and such rates of interest as seems advisable. (5) Employ such managers, and clerical, engineering, legal, or other professional assistance services and labor as may be necessary for accomplishing the purposes of the title; fix their compensation. (6) Fix, impose, and collect rentals and license fees relative to all business that may be done on the market, make rules and regulations which shall govern all business and all persons and vehicles coming on the market, provide and enforce such penalties as may be necessary.
(1) State Commissioner of Agriculture causes investigation of plans and petition for market construction or improvement. He shall determine as to whether a public necessity exists for acquisition of lands and construction, repair or improvement of public markets in such city, town or village. (2) Local Director of Markets shall submit to the State Commissioner of Agriculture a report at least once each period of 3 months containing statement of fees and other receipts collected for the use of public market facilities, for the construction, repair, or improvement to which the State has contributed. He shall pay to the State Department of Agriculture semiannually such proportion of net receipts collected for use of public markets, as the payments by the State bear to the total amount expended for acquisition of lands, construction, repair or improvement of public markets. When the State's share of costs of public markets shall have been paid back from the net income of the market, the State shall cease to share in the income from public markets and its control shall terminate. The local Director of Markets shall have the powers of administration and operation of the public markets as determined by the local board of control. (3) The governing board of a city, town or village of 10,000 inhabitants or over may establish a department of markets for such municipality, with the powers, duties and jurisdiction of a department of markets and may appoint a director or commissioner of public markets to be head of such department, with all authority pertaining thereto.

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
	North Carolina		
Laws of N.C. 1941 (274.63 G281a 1941 pp. 50-55) Chapt. 39, HB 144	State Marketing Authority consisting of members of State Board of Agric., with Comm. as chairman. Governor shall appoint from time to time commodity advisors to plan programs undertaken in respective communities.	North Carolina Marketing Authority	North Carolina Marketing Authority bonds and other securities not exceeding 30 years at interest not exceeding 5 percent per annum.
	South Carolina		
1948 Printers No. 59-S	State Agricultural Marketing Comm. composed of 7 members: State Comm. of Agric., President of Clemson Agric. College, 5 citizens of State appointed by Gov.	State Agricultural Marketing Commission or local marketing commission. Established in counties or cities of over 10,000 population.	State appropriation. Revenue bonds on marketing facilities. (No State obligation.) Receipts of facilities and grading.
April 24, 1948 Printers 497-L	Greenville County Marketing Commission composed of 5 citizens of Greenville County appointed by Greenville County Legislative Delegation	Greenville County Marketing Commission	Appropriation from Greenville County General Fund of $100,000. Revenue from State. Sinking Fund Commission $96,000. Issue revenue bonds (No. 1 and No. 2 to be paid by tax on property).

ENABLING LEGISLATION IN SELECTED STATES--Continued

Duties of authorized person or organization

North Carolina

(1) Sue and be sued in its corporate name and enter into agreements with USDA or other State or Federal agency for purposes of this act. (2) Plan, build, and purchase, lease, or acquire use of any warehouse or other facilities necessary for successful operation of wholesale market by the Authority. (3) Select and employ capable market manager and his assistants. (4) Fix terms upon which individuals, cooperative or corporate wholesale merchants or warehousemen may place their facilities under supervision of Authority. (5) Fix rentals and charges for each type of facility in markets under its control. (6) Issue permits to itinerant dealers in intrastate commerce to operate under State Marketing Authority. (7) Issue bonds and other securities for purposes of this act. (8) Accept grants in aid and/or free work. Adopt and use corporate seal.

South Carolina

(1) Request research agencies to determine if farmers' market should be established, including kind and size needed, estimated cost of construction, etc. (2) Acquire by purchase, lease, gift, or otherwise suitable sites for markets to erect necessary marketing facilities. (3) Operate and maintain same for handling, classifying, grading, and sale of fruit and vegetables, poultry, eggs, dairy products, livestock, or other farm products. (4) Supply necessary personnel. (5) Receive and use Federal grants. (6) Make loans to local marketing authorities, established. (7) Make rules and regulations for operation of markets.

(1) Erect on market site heretofore acquired necessary buildings and other marketing facilities. (2) Operate the same. (3) Receive and use grants or contributions. (4) Certify to county auditor, who shall levy tax on all taxable property within Greenville County sufficient to raise amount needed to support market.

APPENDIX A.--DIGEST OF PRODUCE MARKET FACILITY

Date and identification	Authorized person or organization	Who operates marketing facilities	How funds are raised
	Tennessee		
1949 New Law page 159	Davidson County Farmers' Market Commission composed of 5, elected quarterly by county court	Davidson County Farmers' Market Commission and its market manager	Davidson County bonds $1,000,000 (interest at not more than 3 percent). Bond issue must be approved by majority of eligible voters of Davidson County.
	Virginia		
1940 Senate Bill 169, Chapt. 257	Local Produce Market Authority can be created whenever governing body of cities having population of 30,000 petition Gov. to establish it; composed of 5.	Local Produce Market Authority	Issue revenue bonds with not more than 5 percent interest and not exceeding 30 years (no debt to city). It may borrow $300,000 from State, no interest for first 3 years, then 3 percent on balance.
	Wisconsin		
L2.971 - 1947 Session Laws pp. 1174-1187	Local Produce Market Authority appointed by Governor as follows: 2 from 4 farmers nominated by general farm organization; 1 from 3 consumers; 2 from 4 wholesalers by meeting of wholesalers licensed by PAC Act; 1 from 3 businessmen; 1 from 3 retailers; and chief executive officer to act as director.	Local Produce Market Authority	Issue negotiable bonds and notes not to exceed 30 years and to receive appropriations, etc.

ENABLING LEGISLATION IN SELECTED STATES--Continued

Duties of authorized person or organization

Tennessee

(1) Borrow $1 million to establish and construct a public market or marketing facilities. (2) Provide grounds therefor. (3) Supply necessary personnel. (4) Exercise power of eminent domain. (5) Accept Federal or State aid.

Virginia

(1) Set up public benefit corporation and erect and operate market facilities.
(2) Acquire by purchase, lease, gift, etc., land for erection of facilities.
(3) Construct and maintain buildings, etc., for sale of perishable farm products at wholesale.
(4) Lease facilities and hire necessary personnel.

Wisconsin

(1) Acquire by purchase, condemnation, etc., such land or property as necessary to the operation of a market. (2) Mortgage, sell, rent, lease, exchange, or otherwise dispose of any such property deemed advisable, on approval of Governor of State and trustee of bondholders. (3) Plan, build, or operate such facilities necessary for operation of market. (4) Borrow money, make and issue negotiable notes, bonds, and other evidences of indebtedness of the Authority, etc., provided no debt shall be considered a debt of the State. (5) Receive appropriations, gifts, etc. (6) Employ market manager and other authorized employees of market. (7) Fix, alter, charge and collect rentals and other income. (8) Promulgate reasonable rules and regulations relating to use of market. (9) Make contracts, adopt corporate seal, etc.

APPENDIX B.--COMPARATIVE CORPORATION AND TAX LAW CHARTS FOR SELECTED STATES

State	Organization tax filing fees and miscellaneous expenses	Inheritance taxes on transfer of shares held by nonresident
Delaware	(Based on authorized capital stock) Par Value Stock: 1¢ for each share of authorized capital stock having par value up to and including 20,000 shares, ½¢ for each such share in excess of 20,000 shares and up to and including 200,000 shares, and 1/5¢ for each such share in excess of 200,000 shares. Each $100 of par value is deemed one share for initial tax purposes. No-Par Value Stock: ½¢ for each share of authorized capital stock without par value up to and including 20,000 shares; ¼¢ for each such share in excess of 20,000 shares up to and including 2,000,000 shares, and 1/5¢ for each such share in excess of 2,000,000 shares. Minimum, $10. Recording-Indexing miscellaneous fees, approximately $20-25.	No tax
New Jersey	(Based on authorized capital stock) 20¢ per $1,000 of authorized stock having par value 1¢ per share for non-par value shares Minimum, $25. Filing fees and miscellaneous expenses, approximately $15.	No tax
New York	(Based on authorized capital stock) 1/20 of 1% of the par value. No-par value shares: 5¢ per share. Minimum, $10. Filing fees, $40.	No tax
Illinois	Initial license fee of 1/20 of 1% of the value expressed in dollars of the entire consideration received by the corporation for or on account of its issued shares reported to the Secretary of State in its first report of issuance of shares. Issuing certificate of Incorporation, $20. Recording fees, $5 (estimated). Initial Franchise Tax--rate 1/12 of 1/20 of 1%, for each calendar month or fraction thereof, between date of issuance of shares reported to the Secretary of State in first report of issuance of shares, and the first day of July of the next succeeding calendar year of that proportion of the sum of its stated capital and surplus which the sum of (1) the value of its property located in Illinois and (2) the gross amount of business transacted at or from places of business in Illinois bears to the sum of (1) the value of all its property wherever located, and (2) the gross amount of its business wherever transacted. Minimum $10.	Shares owned by nonresident not taxed unless shares have acquired a business status and decedent was a resident of State which does not come within Ill. reciprocal exemption statute.

From Gerstenberg, C. W. 1951 Financial Organization and Management of Business, (24) pp. 605-612. New York.

APPENDIX B.--COMPARATIVE CORPORATION AND TAX LAW CHARTS FOR SELECTED STATES--Continued

State	Annual franchise tax	Stamp tax on transfer of shares
Delaware	The lesser of amounts determined under the two following methods: (1) Based on authorized shares (with or without par value) When 250 shares or less . . . . . $ 5.50 Over 250 shares but not more than 1,000 shares. . . . . 11.00 Over 1,000 shares but not more than 3,000 shares. . . . . 22.00 Over 3,000 shares but not more than 5,000 shares. . . . . 27.50 Over 5,000 shares but not more than 10,000 shares . . . . . 55.00 For each additional 10,000 shares or part thereof over 10,000 shares. . . $27.50 (2) Based on assumed no-par capital (assumed no-par capital = shares without par value X $100). To amount of tax thus ascertained under (2) add $100 for each $1,000,000 or fraction thereof in excess of $1,000,000 of the assumed par-value capital determined as follows: When assumed no-par value capital is $25,000 or less . . . . . $ 5.50 When over $25,000 but not more than $100,000 . . . . . 11.00 When over $100,000 but not more than $300,000. . . . . 22.00 When over $300,000 but not more than $500,000. . . . . 27.50 When over $500,000 but not more than $1,000,000. . . . . 55.00 For each $1,000,000 or part thereof . . . . . 27.50 Total assets / Total of all issued shares (If quotient of fraction is less than par) (value of any authorized par value shares,) (substitute par value for quotient; other-) (wise use quotient.) X Authorized par value shares If assumed par value capital is less than $1,000,000, prorate tax on $110. Maximum, $50,000; minimum $5.50. Inactive corporations pay ½ regular tax.	None
New Jersey	Franchise tax measured by the greater of: (a) that portion of its entire net worth as may be allocable to N. J. or (b) that portion of its entire net worth as the average value of its total assets in N. J. is to the average value of its total assets everywhere at the rate of 8/10 of a mill on 1st $100 million of taxable net worth; 4/10 on 2nd $100 million; 3/10 on 3rd $100 million; 2/10 on excess over $300 million.	None

State	Annual franchise tax	Stamp tax on transfer of shares
New Jersey	(c) the tax assessed, notwithstanding above sections, shall not be less than the greater of 2/10 of a mill per dollar of total assets allocated in accordance with section (b) or $25. (d) In lieu of the tax imposed by above sections, any taxpayer, the value of whose total assets everywhere, less depreciation reserves, amounts to less than $100,000 may elect to pay on a graduate basis from $25 for first $45,000 to $61 for $100,000.	
New York	(A) Franchise tax measured by the greater of: (1) 5½% of its entire net income, or the portion thereof allocated to N. Y. (2) 5½% of an amount equal to 30% of the balance remaining after adding to entire net income compensation paid to officers and certain stockholders and deducting therefrom $15,000 (or a proportionate part thereof in the case of a report for less than a year) and any net loss for the reported year, or the portion of such amount allocated to N. Y. (3) 1 mill of the total of its business capital and investment capital, or the portion thereof allocated to N. Y. (4) Minimum, $25. (B) Real estate corporations are taxed ¼ of a mill on each dollar of full value of gross assets employed or situated in the State during the preceding calendar year, minimum tax being $10 plus 2% upon dividends and certain interest paid, to the extent to which such payments are attributable to N. Y.	2¢ per share where no sale involved. 1¢ per share sold at less than $5. 2¢ per share sold at $5-$9.99. 3¢ per share sold at $10-$19.99. 4¢ per share sold at $20 or over. Original issues not taxable.
Illinois	Franchise Tax: Rate is 1/20 of 1% for the 12-month period commencing on the first day of July of that proportion of the sum of its stated capital and paid-in surplus which the sum of (1) the value of its property located in Illinois and (2) the gross amount of business transacted at or from places of business in Illinois bears to the sum of (1) the value of all its property, wherever located and (2) the gross amount of its business wherever transacted, except if the corporation in its annual report elects to pay its franchise tax upon the sum of its entire stated capital and paid-in surplus, such franchise tax shall be assessed accordingly until the corporation elects otherwise in a subsequent annual report. Minimum tax, $10.00. Capital stock tax: Rate varies with local property tax rate in district in which corporation has its principal office. Retail sales tax: 2% of 98% of gross receipts.	None

State	Incorporators (1) Number (2) Residence (3) Qualifications (4) Place of meeting	Stockholders (1) Residence (2) Place of meeting (3) Maximum liability (4) Is cumulative voting permitted?	Directors (1) Number (2) Residence (3) Qualifications (4) Place of meeting	Increase or decrease in number of directors	Scope and purpose permitted under one charter
Delaware	(1) 3 or more (2) No restrictions (3) Natural persons (4) Anywhere	(1) No restrictions (2) Within the State unless by-laws provide otherwise (3) Unpaid portion of subscription (4) If provided for in charter	(1) 3 or more (2) No restrictrictions (3) As certificate of incorporation or by-laws provide (4) As by-laws provide, within or without the State	The by-laws provide for the number of directors. If provision is made in the charter giving directors power to amend by-laws, the directors can change the number.	Broad powers; any purpose or purposes except banking and public utilities to be operated within Delaware.
New Jersey	(1) 3 or more (2) No restrictions (3) Natural persons. Must be subscribers to the stock. (4) No statutory provision. (Practice is to hold meetings in the State.)	(1) No restrictions (2) Within the State unless otherwise provided for in the certificate of incorporation or an amendment, or the by-laws (3) Unpaid portion of subscription (4) If provided for in charter	(1) 3 or more (2) No restrictions (3) Must be bona-fide stockholders or stockholders in corporation holding 25% or more of the stock (4) As charter or by-laws provide within or without the State	The by-laws provide for the number of directors. If provision is made in the charter giving directors power to amend by-laws, the directors would then have power to change the number.	Fairly broad powers; any *lawful* purpose or purposes, except banking, building & loan, surety, insurance, and public service. Railroad, telephone, and telegraph companies operating outside the State are permitted to organize under the General Corporation Act.

State	Incorporators	Stockholders	Directors	Increase or decrease in number of directors	Scope and purpose permitted under one charter
	(1) Number (2) Residence (3) Qualifications (4) Place of meeting	(1) Residence (2) Place of meeting (3) Maximum liability (4) Is cumulative voting permitted?	(1) Number (2) Residence (3) Qualifications (4) Place of meeting		
New York	(1) 3 or more (2) One must be a resident of New York (3) Two-thirds must be citizens of the U. S.; all must be natural persons of full age and subscribers to the stock. (4) In New York	(1) No requirements (2) Within the State (3) Unpaid portion of subscription plus amounts due for wages, with limitations (4) If provided for in charter	(1) 3 or more (2) One must be a citizen of the U. S. and a resident of New York (3) Must be stockholders unless charter or by-laws otherwise provide (4) If only within State, charter or by-laws must so provide	The charter provides for the number of directors, and to increase or decrease that number an amendment must be filed.	Broad powers; any purpose or purposes except banking, insurance, railroad and transportation.
Illinois	(1) 3 or more (2) No restrictions (3) Natural persons of full age and subscribers to the shares (4) Anywhere	(1) No requirements (2) Within or without the State as provided in by-laws. In absence of any by-law provision, shareholders' meetings must be held at registered office within State (3) Unpaid portion of subscription (4) Required by statute	(1) 3 or more (2) No restrictions (3) As articles of incorporation or by-laws provide (4) Within or without the State	The by-laws provide for the number of directors; number may be increased by amendment of by-laws; directors have power to make, alter, amend or repeal by-laws, unless reserved to the shareholders by the articles of incorporation	Any lawful purpose or purposes except for the purpose of banking or insurance or the operation of railroads. Railroads which have the major portion of their system within the metropolitan area of cities of at least 500,000 inhabitants are permitted.

APPENDIX B.--COMPARATIVE CORPORATION AND TAX LAW CHARTS FOR SELECTED STATES--Continued

State	Restrictions in selecting a corporate name	(a) Duration (b) Limitation of amount of indebtedness	(1) Authorized capital stock (2) Classes of stock	Par value of stock
Delaware	Must contain one of the following words: *association, company, corporation, club, incorporated, institute, society, union, syndicate* or *limited* or abbreviations *Co., Corp., Inc., Ltd.*, or words of like import in other languages. Use of word *trust* is prohibited except for corporations under supervision of State Bank Commissioner.	(a) Perpetual or limited (b) No statutory limitation	(1) Minimum, none; maximum, none (2) Any number	Par value of any amount No-par-value shares permissible for all classes
New Jersey	Shall not contain words *insurance, trust company, trust, bank, safe deposit* or *title*.	(a) Perpetual or limited (b) No statutory limitation	(1) Minimum $2,000. Maximum, unlimited (2) Any number	Par value of any amount No-par-value shares permissible for all classes
New York	Name must contain word or words, abbreviations, affix or prefix thereto as will clearly indicate it is a corporation.	(a) Perpetual or limited	(1) No restrictions as to amount	Par value of any amount

State	Restrictions in selecting a corporate name	(a) Duration (b) Limitation of amount of indebtedness	(1) Authorized capital stock (2) Classes of stock	Par value of stock
New York	Shall contain none of following words: *trust, bank, banking, banker, bankers, acceptance, insurance, assurance, indemnity, endowment, guarantee, guaranty, title, casualty, surety, fidelity, finance, bond, bonding, savings, investment, loan, mortgage, annuity, annuities, underwriter, underwriters, underwriting,* or *benefit,* except a moneyed corporation. Words *Masonry, Mason, Masons, Masonic, Free Masons, Free and Accepted Masons, Ancient Free and Accepted Masons, Knights of Pythias, Pythians, Pythias, Pythianism,* or significant parts thereof may be used only with the consent of the Grand Lodge of Free and Accepted Masons of the State of New York. May not include *Doctor, Dr., Lawyer, Engineers* or *Engineering.* Must be in English letters or characters.	(b) No statutory limitation	(2) Any number	No-par-value shares permissible for all classes
Illinois	Shall contain the word *corporation, company, incorporated,* or *limited,* or shall end with an abbreviation of one of said words.	(a) Perpetual or limited (b) No statutory limitation	(1) Minimum, $1,000 (2) Any number, but each class is entitled to vote	Par value of any amount No-par-value shares permissible for all classes

State	Commencement of business		Payment of capital		(a) Principal office (b) Books and records to be kept there	With whom filed
	Minimum to be subscribed	Minimum to be paid in	When	How		
Delaware	No requirements	$1,000	As provided for in the contract of subscription, or in absence of any provision, as called for or assessed by the directors	Money paid, labor done, or personal property, or real estate or leases thereof actually acquired	(a) Within the State (b) Duplicate stock ledger	Secretary of State; also record certified copy with County Recorder of the county where principal office is located.
New Jersey	$1,000 in par shares or at least 3 no-par shares	$1,000	As provided for in the contract of subscription, or in absence of any provision, as called for or assessed by the directors	For money, property, or labor done	(a) Within the State (b) Stock ledger and transfer book	File and record first in office of Secretary of State; then record certified copy in County Clerk's office of county of principal office.
New York	No requirements	No requirements	As provided for in the contract of subscription, or in absence of any provision, as called for or assessed by the directors	In money, property, or labor done	(a) Within the State (b) Stock books and books of account	Secretary of State who will make, certify and transmit copy to county clerk of county where principal office is located for filing.
Illinois	$1,000	$1,000	As provided for in the contract of subscription, or in absence of of any provision, as called for or assessed by the directors	In money, labor, property (tangible or intangible, except promissory notes) or services actually performed	(a) Within the State (b) Must keep record of its shareholders at principal place of business or registered office or at office of registrar or transfer agent in the State.	Duplicate originals with Secretary of State. Record certificate of incorporation issued by Secretary of State with Recorder of Deeds of county where registered office is located.

APPENDIX C.--STATE MARKETING BUREAUS ACT

[Title. It should conform to State requirements. The following is a suggestion; a more complete title should be used where necessary: *An Act to establish a Marketing Bureau in the Department of Agriculture.*]

(Be it enacted, etc.)

Section 1. Creation: Purposes. For the purpose of promoting and developing, for the public welfare, improved marketing methods and procedures including the proper harvesting, efficient and economical handling, grading, processing, packing, transporting, storage, distribution, inspection, and sale of farm and food products within the State, there is hereby created within the Department of Agriculture a Marketing Bureau (hereinafter referred to as the *Bureau*) under the direction and supervision of a Director (hereinafter referred to as the *Director*) appointed by the [Commissioner] [Secretary] [Director] of Agriculture, in conformity with the State laws governing such appointments.

Section 2. Definitions.

(a) The term *farm products* shall include all agricultural, floricultural, vegetable, and fruit products of the soil, livestock and meats, poultry, eggs, dairy products, and any and all products which have their situs of production on the farm.

(b) The term *food products* shall include any and all products either in a natural or processed state used by man or animal as food.

(c) The term *farmer* shall mean any natural person or other legal entity comprised of natural persons actually engaged in farming.

Section 3. Powers and Duties of Director. The Director, under the general supervision and direction of the [Commissioner] [Secretary] [Director] of Agriculture is empowered and directed:

(a) To appoint such competent and experienced persons to assist him in the performance of his powers and duties as may be necessary to effectuate the purposes of this Act.

(b) To delegate to any officer or employee of the Bureau any of the powers and duties conferred upon him pursuant to this Act.

(c) To investigate methods and practices in connection with the processing, handling, standardizing, grading, classifying, sorting, weighing, packing, transportation, storage, inspection, and sale of farm and food products within this State and all matters relevant thereto; and to acquire and disseminate information relative to such matters in such form and at such time as he shall deem advisable.

(d) To acquire and disseminate information as to market prices of farm and food products and market conditions, in the markets of the State and any other markets, through use of Bureau market reporters, agreements with organized groups of producers, shippers, or dealers in farm produce for the joint employment of market reporters, or special arrangements with existing market reporting agencies, when in his judgment such information will be valuable to the producers or consumers of the State.

(e) To ascertain sources of supply of farm and food products, wherever produced, and prepare and publish from time to time lists of the names and addresses of producers and consignors thereof and furnish the same to persons applying therefor.

(f) To cooperate with and aid farmers and other producers of farm and food products and distributors and consumers thereof in improving and maintaining economic and efficient systems of harvesting, processing, storage, distribution, and marketing, and in reaching advantageous markets.

(g) To assist and advise in the organization and conduct of cooperative and other associations for improving relations and services among producers, distributors, and consumers and for improving methods and practices, and all matters relevant thereto.

(h) To investigate delays, embargoes, conditions and practices, charges, and rates in the marketing, transportation, and handling of farm and food products, and when such investigation discloses a probable violation of State or Federal law, to make recommendations to the proper State or Federal authorities for appropriate action thereon.

(i) To take such action as he shall deem advisable in the public interest and without profit, to facilitate the sale of any farm or food products likely to spoil, waste, or depreciate in value for lack of a ready market.

(j) To formulate, promulgate, and announce proper and fair standards, grades, and classes, for and among farm food products, which shall not be lower in their requirements than the minimum requirements of the official standards for corresponding grades or classifications, commonly known as U. S. grades, promulgated from time to time by the Secretary of Agriculture of the United States, and to modify or supplement the same from time to time, and to recommend the same for voluntary use by cooperative and other like associations of producers, distributors, and vendors as the standards, grades, or classes to be adopted for marketing the same.

(k) To provide independently or in cooperation with any Federal or State authority or agency or any organization or individual for inspection and determination of the class, quality, or condition of farm and food products and issuance of certificates of such inspections. 1/ The Director shall provide for the payment of fees for such inspection services, which fees shall cover the estimated cost of the inspections and certificates. The fees collected for such inspection services shall be deposited into a special fund and shall be disbursed in accordance with the terms of any cooperative agreement for the conduct of the work.

1/ If appropriate, provision may be inserted making the inspection certificates admissible in evidence in the courts of the State, as provided in the suggested legislation *Agricultural Products Inspection Certificates Act*.

(l) To investigate as to the needs of terminal, regional, assembly, dock, and other distributing facilities for the delivery, sale, and distribution of foods at the centers of population, and the establishment and operation of cooperative or public abattoirs for the slaughter of animals and poultry for food purposes; to advise and cooperate with public and private agencies or organizations to promote the establishment, construction, or acquisition of such facilities for public use and make recommendations as to the conduct thereof; and to advise and cooperate in establishing local markets, and warehouses for assembling, grading, packing, and storing food or farm products, whenever in the judgment of the Director the public interest requires such establishment.

(m) To administer such regulatory laws governing the marketing and sale of farm products within the State, and to exercise such other powers and perform such other functions, authorized by law, as may be delegated or assigned to him by said [Commissioner] [Secretary] [Director] of Agriculture.

(n) In general, to such extent as the Director shall deem necessary in connection with the powers and duties conferred herein in order to effectuate the purposes of this Act, to conduct investigations, hold hearings, develop plans, engage in promotional activities, and cooperate, through cooperative agreements or otherwise, with Federal or State officials, governmental and nongovernmental organizations, and other persons, including the furnishing of such data or information as are not otherwise prohibited herein.

Section 4. Annual Reports. The Director shall make an annual report to the [Commissioner] [Secretary] [Director] of Agriculture on or before the first day of _____ of each year, in which shall be set forth in detail the work performed by the Bureau during the preceding calendar year; a statement of the plans made for the development of the work; a detailed statement of receipts and expenditures and of estimated financial requirements of the Bureau for the next fiscal year; and such other matters as the Director may think advisable.

Section 5. Business of Buying and Selling Prohibited. The Director and employees of the Bureau are prohibited, during their respective terms of office or employment, except for the purposes of the Bureau in the public interest and without profit, from engaging in this State or elsewhere in the business of buying, selling, or dealing on a commission basis in farm or food products; provided, however, that the Director or any employee of the Bureau shall be permitted to sell farm or food products grown or produced by him or them.

Section 6. Confidential Information. All information furnished to or acquired by the Director pursuant to this Act with reference to which a request for confidential treatment was made by the person furnishing it at the time such information was furnished shall be deemed confidential, and no officer or employee of this State or person acting in behalf of this State under or by any authority of this State shall disclose such information to any person not authorized to receive such information in his official capacity. Nothing in this section shall be deemed to prohibit the issuance of general statements, statistical studies, or similar reports or publications which are based upon information furnished by a number of persons and which do not reveal the methods, practices, rates, prices, or charges of particular persons.

Section 7. Discrimination Forbidden. In the performance of his duty under this Act the Director shall not discriminate against any farm or food products, or against any producer or processor of any such products, on account of the country, State, or political subdivision in which any such products are produced or processed, or on account of the legal nature of the producer, processor, or other person engaged in the marketing of any such products, or on account of the conditions of employment or the nature of the labor employed in the production, processing, or marketing of such products; or on account of the method of transportation but the Director shall take every reasonable precaution to prevent any such discrimination.

Section 8. Violation and Penalties. The violation of any of the prohibitions contained in this Act by any officer or employee of this State or a person acting in behalf of this State under or by authority of this State pursuant to this Act, shall constitute grounds for the dismissal of such person and shall constitute a misdemeanor.

APPENDIX D.--ANNUAL INSTALLMENT PAYMENT PER $1,000 IN BONDS (INTEREST AND PRINCIPAL) NECESSARY TO AMORTIZE AN INVESTMENT AT INTEREST RATES (COMPOUNDED) AND FOR PERIODS AS FOLLOWS

Years	1 percent	1 1/2 percent	2 percent	2 1/2 percent	3 percent	3 1/2 percent	4 percent	4 1/2 percent	5 percent	5 1/2 percent	6 percent	6 1/2 percent	7 percent
1....	1,010.00	1,015.00	1,020.00	1,025.00	1,030.00	1,035.00	1,040.00	1,045.00	1,050.00	1,055.00	1,060.00	1,065.00	1,070.00
5....	206.04	209.09	212.16	215.25	218.35	221.48	224.63	227.79	230.98	234.18	237.40	240.63	243.89
10....	105.58	108.44	111.33	114.26	117.23	120.24	123.29	126.38	129.50	132.67	135.87	139.10	142.38
15....	72.12	74.94	77.83	80.77	83.77	86.83	89.94	93.11	96.34	99.63	102.96	106.35	109.79
16....	67.94	70.77	73.65	76.60	79.61	82.69	85.82	89.02	92.27	95.58	98.95	102.38	105.86
17....	64.26	67.08	69.97	72.93	78.95	79.04	82.20	85.42	88.70	92.04	95.44	98.91	102.43
18....	60.98	63.81	66.70	69.67	72.71	75.82	78.99	82.24	85.55	88.92	92.36	95.85	99.41
19....	58.05	60.88	63.78	66.76	69.81	72.94	76.14	79.41	82.75	86.15	89.62	93.16	96.75
20....	55.42	58.25	61.16	64.15	67.22	70.36	73.58	76.88	80.24	83.68	87.18	90.76	94.39
21....	53.03	55.87	58.78	61.79	64.87	68.04	71.28	74.60	78.00	81.46	85.00	88.61	92.29
22....	50.86	53.70	56.63	59.65	62.75	65.93	69.20	72.55	75.97	79.47	83.05	86.69	90.41
23....	48.89	51.73	54.67	57.70	60.81	64.02	67.31	70.68	74.14	77.67	81.28	84.96	88.71
24....	47.07	49.92	52.87	55.91	59.05	62.27	65.59	68.99	72.47	76.04	79.68	83.40	87.19
25....	45.41	48.26	51.22	54.28	57.43	60.67	64.01	67.44	70.95	74.55	78.23	81.98	85.81
26....	43.87	46.73	49.70	52.77	55.94	59.21	62.57	66.02	69.56	73.19	76.90	80.69	84.56
27....	42.45	45.32	48.29	51.38	54.56	57.85	61.24	64.72	68.29	71.95	75.70	79.52	83.43
28....	41.12	44.00	46.97	50.09	53.29	56.60	60.01	63.52	67.12	70.81	74.59	78.45	82.39
29....	39.89	42.78	45.78	48.89	52.11	55.45	58.88	62.41	66.05	69.77	73.58	77.47	81.45
30....	38.75	41.64	44.65	47.78	51.02	54.37	57.83	61.39	65.05	68.81	72.65	76.58	80.59
31....	37.68	40.57	43.60	46.74	50.00	53.37	56.86	60.44	64.13	67.92	71.79	75.75	79.80
32....	36.67	39.58	42.61	45.77	49.05	52.44	55.95	59.56	63.28	67.10	71.00	75.00	79.07
33....	35.73	38.64	41.69	44.86	48.16	51.57	55.10	58.74	62.49	66.33	70.27	74.30	78.41
34....	34.84	37.76	40.82	44.01	47.32	50.76	54.31	57.98	61.76	65.63	69.60	73.66	77.80
35....	34.00	36.93	40.00	43.21	46.54	50.00	53.58	57.27	61.07	64.97	68.97	73.06	77.23
36....	33.21	36.15	39.23	42.45	45.80	49.28	52.89	56.61	60.43	64.37	68.39	72.51	76.72
37....	32.47	35.41	38.51	41.74	45.11	48.61	52.24	55.98	59.84	63.80	67.86	72.01	76.24
38....	31.76	34.72	37.82	41.07	44.46	47.98	51.63	55.40	59.28	63.27	67.36	71.53	75.80
39....	31.09	34.05	37.17	40.44	43.84	47.39	51.06	54.86	58.77	62.78	66.89	71.10	75.39
40....	30.46	33.43	36.56	39.84	43.26	46.83	50.52	54.43	58.28	62.32	66.46	70.69	75.01

Source: Annuities and Amortization Tables, by Pierre Zaldari (The Library of Congress - HG 8793)

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